

GUIDE TO


Direct Consolidation Loans



U. S. D E P A R T M E N T O F E D U C A T I O N




introduction



Students and parents gained a simple way to finance education with the William D. Ford Federal Direct Loan Program. They also gained a simple way to manage education debt with Federal Direct Consolidation Loans (Direct Consolidation Loans).

Through consolidation, borrowers may combine various types of federal education loans, including Direct Loans and loans made through the Federal Family Education Loan (FFEL) Program. Consolidation also may extend a borrower's repayment period, provide an interest rate break in some cases, and eliminate the hassle of dealing with multiple lenders. Direct Consolidation Loans, as with all Direct Loans, have only one lender—the Department of Education. Borrowers send one payment to one place, and they make only one request to update their address or to apply for a deferment.



Direct Consolidation



Direct Loans

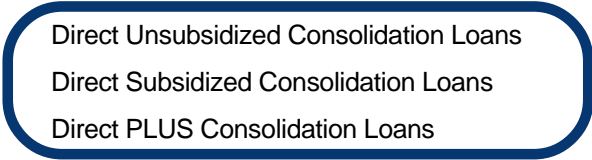
The Basics

- ▶ One Direct Loan or FFEL must be included in any Direct Consolidation Loan. Borrowers who are not consolidating at least one loan in an in-school period and at least one Direct Loan must certify on the application that they have checked with a FFEL consolidation lender and have been unable to obtain a Federal Consolidation Loan or, if they are consolidating only student loans (not PLUS Loans), that they have been unable to obtain a Federal Consolidation Loan with income-sensitive repayment terms acceptable to them.¹ Reasons why a borrower would be unable to obtain such a loan include but are not limited to: Lenders may have minimum loan amount requirements, and some lenders do not offer income-sensitive repayment terms.
- ▶ Borrowers do not have to include all of their loans in the consolidation. For instance, a borrower might choose to leave a loan with a lower interest rate out of the consolidation.
- ▶ Borrowers may consolidate a single loan to take advantage of the benefits of the Direct Consolidation Loan Program.
- ▶ There are no minimum or maximum amounts to consolidate.
- ▶ There is no consolidation fee.
- ▶ Borrowers may prepay a Direct Consolidation Loan at any time.
- ▶ Borrowers must keep the Department's Direct Loan Servicing Center up to date. For instance, they must report a change of address. It is also vital that borrowers contact the Direct Loan Servicing Center when they have questions or problems making their payments.

¹ For a discussion of this requirement, see the comments on 34 CFR 685.215(d)(1)(i)(B) at 59 FR 61683 (December 1, 1994).

Loan Categories

The Direct Consolidation Loan Program groups loans into three categories:



- Direct Unsubsidized Consolidation Loans
- Direct Subsidized Consolidation Loans
- Direct PLUS Consolidation Loans

Most subsidized federal education loans can be consolidated in a Direct Subsidized Consolidation Loan. Unsubsidized federal education loans can be consolidated in a Direct Unsubsidized Consolidation Loan. And Direct PLUS Loans and Federal PLUS Loans can be combined in a Direct PLUS Consolidation Loan.

Borrowers who have loans from more than one category still have only one Direct Consolidation Loan and make only one monthly payment. The Direct Loan Servicing Center keeps track of the underlying loan types when loans from different categories are consolidated. Interest rates vary depending on loan category as do repayment and deferment options in certain cases.

Interest Rates

The interest rates for Direct Consolidation Loans are variable with a cap of 8.25 percent on loans to students and 9 percent on loans to parents (PLUS Loans). The rates are adjusted each year on July 1.

Currently, the interest rate on Direct Subsidized Consolidation Loans and Direct Unsubsidized Consolidation Loans in repayment is equal to the 91-day Treasury bill rate plus 3.1 percentage points. During in-school, grace, and deferment periods, the interest rate on these loans is equal to the 91-day Treasury bill rate plus 2.5 percentage points.

For Direct PLUS Consolidation Loans, the current interest rate during all periods is equal to the 52-day Treasury bill rate plus 3.1 percentage points.

Note: Beginning July 1, 1998, interest rate calculations change. We will update this section when the new calculations are determined.

The Direct Loan Servicing Center notifies borrowers each year of the effective interest rate. Monthly payments are adjusted to reflect an annual interest rate change unless a borrower asks that the monthly payment remain the same and the number of monthly payments be extended if necessary.

The federal government pays the interest on a Direct Subsidized Loan while the borrower is in an in-school, grace, or deferment period. Interest is charged to the borrower during a forbearance.

The borrower is responsible for interest charged on a Direct Unsubsidized Loan or Direct PLUS Loan during all periods.

Welcome to the

Since January 1995, the U.S. Department of Education has been consolidating the federal education loans of borrowers in repayment and borrowers in default. Recently, the Department began consolidating education loans of borrowers who are still in school.

We have prepared this guide to help you counsel borrowers who are in school, as well as those in repayment or in default, on a decision based on their unique circumstances.

The guide is organized around *borrower eligibility*—Borrowers in School, Borrowers out of School, and Borrowers in Default—rather than *loan type*, because some loans cannot be consolidated while a borrower is in school, some eligible loans may lose benefits, and still others may gain benefits only if consolidated while the borrower is in school.

We have also tried to look ahead, concentrating on what's new in consolidation. Therefore, the sections on "How Consolidation Works" incorporate changes. When there are processing or policy changes, the guide may be easily updated and reproduced. Each section is paginated separately, and certain information is repeated rather than referring the reader to other parts of the handbook. Each page also bears a "last revised" date.

We welcome your recommendations for improvement of the guide and have included room for comments on each page and a comment sheet in Appendix S. Please fax your comments about the guide to us at any time.

If you have specific questions about eligibility, grace periods, interest rate computations, or anything else related to Direct Consolidation Loans, please call the Loan Origination Center.

Federal Direct Consolidation Loan

Program.

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borrower eligibility

Direct Consolidation Loans are available to a wide range of borrowers. The introduction covered the basics; this section will explain who is eligible.

In counseling borrowers on their eligibility for a Direct Consolidation Loan, a financial aid administrator must determine the borrower type (student or parent) and then the borrower status (in school, out of school, in default). Borrowers who are out of school include those in grace, in repayment, or in deferment or forbearance. The following sections outline the eligibility requirements for both student and parent borrowers in each status and address issues for married borrowers.

Direct Consolidation

Direct Loans

Student Borrowers:

Student borrowers have received at least one Direct Loan or FFEL to finance their own education. When applying for a Direct Consolidation Loan, they must meet the eligibility requirements for their status: in school, out of school, or in default.

In School

Borrowers are in school if they are attending school at least half time. They are eligible for in-school consolidation if they

are attending a Direct Loan school

and

include at least one Direct Loan or FFEL in an *in-school period*

OR

are attending a non-Direct Loan school

and

have at least one Direct Loan

and

include at least one Direct Loan or FFEL in an *in-school period*

Generally, a student loan is considered to be in an in-school period from the time the loan is disbursed until the borrower ceases to be enrolled on at least a half-time basis.

Note: Under current law, FFEL borrowers are unable to consolidate a loan in an in-school period under the FFEL Program; therefore, **borrowers who have an in-school loan do not have to certify that they have been unable to obtain a Federal Consolidation Loan.**

Borrowers who have at least one in-school loan and one defaulted loan must meet an additional requirement to consolidate while in school: They must make *satisfactory repayment arrangements* on their defaulted loans. For the purpose of consolidating a defaulted FFEL or Direct Loan, three, consecutive, voluntary, on-time, full monthly payments constitute satisfactory repayment arrangements. Borrowers must work with their current loan holders to make *reasonable and affordable payments*. Borrowers who are in default on other federal education loans must contact their current loan holders to determine how those loan holders define satisfactory repayment arrangements. (Borrowers who are in school and in default, should see the “Bob” example on page 13.)

Parent borrowers who are also students may consolidate in school. While a PLUS Loan does not qualify as an “in-school” loan, parent borrowers may have other eligible loans in an in-school period. These borrowers must then meet the credit requirements for PLUS borrowers on page 7.

Examples:

A borrower who is attending a Direct Loan school half time and wishes to consolidate all of her loans—two FFELs in an in-school period—is eligible for in-school consolidation.

However, a borrower who is attending a non-Direct Loan school half time and wishes to consolidate all of his loans—two FFELs in an in-school period—would NOT be eligible for in-school consolidation.

Out of School

Borrowers are out of school if they are making scheduled payments on their federal education loans or they are in a period of grace, deferment, or forbearance. These borrowers are eligible to consolidate if they

have at least one Direct Loan

or

have at least one FFEL

and

have been unable to obtain a Federal Consolidation Loan with a FFEL consolidation lender or have been unable to obtain a Federal Consolidation Loan with income-sensitive repayment terms acceptable to them

Examples:

A borrower who has recently graduated and wishes to consolidate a Direct Loan with other federal education loans would be eligible for a Direct Consolidation Loan.

A borrower in repayment who wishes to consolidate a FFEL with other federal education loans (no Direct Loans) and has been unable to obtain a Federal Consolidation Loan would be eligible for a Direct Consolidation Loan.

A borrower in repayment who wishes to consolidate a FFEL with other federal education loans (no Direct Loans) and is able to obtain a Federal Consolidation Loan would NOT be eligible for a Direct Consolidation Loan.

In Default

Borrowers who are in default must meet additional requirements for eligibility. The following requirements are divided for those with Direct Loans and those with FFELs. Borrowers are eligible to consolidate while in default if they

have at least one Direct Loan

and

agree to repay under the Income Contingent Repayment (ICR) Plan

or

have made satisfactory repayment arrangements

OR

have at least one FFEL

and

have been unable to obtain a Federal Consolidation Loan with a FFEL consolidation lender or have been unable to obtain a Federal Consolidation Loan with income-sensitive repayment terms acceptable to them

and

agree to repay under the ICR Plan

or

have made satisfactory repayment arrangements

For the purpose of consolidation, three consecutive, voluntary, on-time, full monthly payments on a defaulted FFEL or Direct Loan constitute satisfactory repayment arrangements. Borrowers must work with their current loan holders to set up reasonable and affordable payments. Borrowers who wish to consolidate defaulted Perkins or health professions loans should contact their loan holders for information on satisfactory repayment arrangements under these programs.

Borrowers who have at least one in-school loan and one defaulted loan must make satisfactory repayment arrangements before they are eligible for in-school consolidation. They must then meet the requirements for in-school consolidation on page 2. (Borrowers who are in school and in default, should also see the “Bob” example on page 13.)

Examples:

A borrower in default who wishes to consolidate a Direct Loan or FFEL and cannot afford to make satisfactory repayment arrangements would be eligible for a Direct Consolidation Loan provided the borrower was eligible and agreed to repay under the ICR Plan.

A borrower in default who wishes to consolidate a Direct Loan or a FFEL and repay under the Graduated Repayment Plan must first make satisfactory repayment arrangements.

Parent Borrowers:

Parent borrowers have received at least one Direct PLUS Loan or Federal PLUS Loan to finance their child's education. When applying for a Direct Consolidation Loan, they must meet the eligibility requirements for their status: out of school or in default. (PLUS borrowers who have at least one loan in an in-school period should consult the Student Borrowers section on page 2.) Parent borrowers also must meet additional credit requirements.

Out of School

Parent borrowers are out of school if they have only PLUS loans or have PLUS loans and student loans on which they are making scheduled payments or are in a period of grace, deferment, or forbearance. These borrowers are eligible to consolidate if they

include at least one Direct Loan

OR

include at least one FFEL

and

have been unable to obtain a Federal Consolidation Loan¹
from a FFEL Consolidation lender

Parent borrowers also must meet credit requirements. They are eligible for a Direct Consolidation Loan if they

do not have an *adverse credit history*

or

obtain an endorser who does not have an adverse credit history for the PLUS part of the consolidation loan

or

document extenuating circumstances

¹ Parent borrowers are not eligible for a Direct Consolidation Loan on the basis of being unable to obtain a Federal Consolidation Loan with income-sensitive terms acceptable to them because they **are not** eligible for the Income Contingent Repayment Plan.

Circumstances that may be considered extenuating include credit problems as the result of illness or divorce. Contact the Loan Origination Center to discuss specific cases.

Examples:

A parent borrower in repayment who does not have an adverse credit history and who has been unable to obtain a Federal PLUS Consolidation Loan would be eligible for a Direct Consolidation Loan.

A parent borrower in repayment who wishes to consolidate a Direct PLUS Loan, but has an adverse credit history, must first obtain an endorser for the PLUS portion of the Direct Consolidation Loan or document extenuating circumstances to the Department.

In Default

Parent borrowers who are in default must meet additional requirements to obtain a Direct Consolidation Loan. They are eligible to consolidate while in default on a PLUS Loan if they

have at least one Direct Loan

and

have made satisfactory repayment arrangements on any defaulted PLUS loans

OR

have at least one FFEL

and

have been unable to obtain a Federal Consolidation Loan² from a FFEL consolidation lender

and

have made satisfactory repayment arrangements on any defaulted PLUS loans

For the purpose of consolidation, three consecutive, voluntary, on-time, full monthly payments on a defaulted Direct Loan or FFEL Program loan constitute satisfactory repayment arrangements. Borrowers must work with their current loan holders to set up reasonable and affordable payments. (Borrowers who are in default on other federal education loans must contact their current loan holders to determine how those loan holders define satisfactory repayment arrangements.)

² Parent borrowers are not eligible for a Direct Consolidation Loan on the basis of being unable to obtain a Federal Consolidation Loan with **income-sensitive terms acceptable to them** because they **are not** eligible for the Income Contingent Repayment Plan.

Parent borrowers who are in default on a student loan (not a PLUS Loan) may choose to repay that loan under the ICR Plan or to make satisfactory repayment arrangements; either will satisfy the eligibility requirement.

Parent borrowers in default still must undergo a credit check. Any defaulted loans will appear on a borrower's credit report. Parent borrowers with an adverse credit history are eligible for a Direct Consolidation Loan only if they

obtain an endorser who does not have an adverse credit history for the PLUS part of the consolidation loan

or

document extenuating circumstances

Borrowers who have at least one in-school loan and one defaulted loan must make satisfactory repayment arrangements to consolidate while in school. They must then meet the requirements for in-school consolidation on page 2. (Borrowers who are returning to school and in default, should see the "Steve" example on page 13.)

Examples:

A parent borrower who wishes to consolidate defaulted Direct PLUS Loans, has made satisfactory repayment arrangements with the Direct Loan Servicing Center, and has obtained an eligible endorser would be eligible for a Direct Consolidation Loan.

A parent borrower who wishes to consolidate defaulted Federal PLUS Loans; has made three payments to her FFEL loan holder; has been unable to obtain a Federal Consolidation Loan; and has obtained an eligible endorser would be eligible for a Direct Consolidation Loan.

Married Borrowers

Married borrowers are eligible for joint consolidation if either
includes a Direct Loan

OR

includes a FFEL

and

has been unable to obtain a Federal Consolidation Loan with
a FFEL consolidation lender or, if eligible for the ICR Plan,
has been unable to obtain a Federal Consolidation Loan with
income-sensitive repayment terms acceptable to them

If applying for in-school consolidation, both must meet the
requirements for in-school consolidation on page 2.

If applying while either spouse is in default, a couple must
either agree to repay under the ICR Plan or must make
satisfactory repayment arrangements as defined on pages 3,
6, and 9.

If applying to consolidate PLUS Loans and both spouses
have an adverse credit history, a couple needs only one
endorser.

Tip! Married borrowers should be counseled to weigh carefully their decision to consolidate jointly. Both borrowers must qualify for deferment, forbearance, and discharge. If one spouse dies or becomes permanently disabled, the other spouse is still responsible for payment of the entire consolidation loan. On the other hand, when a single borrower dies or becomes permanently disabled, the consolidation loan is discharged. Thus, each spouse may want to consolidate separately to minimize risk.

Questions & Answers



Bob has a number of FFELs he obtained over three years while he alternated work and school. When one of his loans was sold to another loan holder, he lost track of it. Upon returning to school, he did not reapply for an in-school deferment on that loan and he defaulted on it. To make sure that doesn't happen again and to reinstate his eligibility for federal student aid, Bob wants to consolidate all of his loans while he is attending classes half time at a Direct Loan school. (He has one Direct Loan in an in-school period now.) Can he?

To consolidate his loans while he is in school, Bob first must make satisfactory repayment arrangements with the holder of his defaulted FFEL Program loan. (For the purpose of consolidation, three consecutive, voluntary, on-time, full monthly payments constitute satisfactory repayment arrangements.) Then, if his Direct Loan is still in an in-school period, he would be eligible for in-school consolidation. Consolidation will allow Bob to keep track of his loans and it will restore his eligibility for federal student aid. His credit report will bear the notation "default paid in full," which, while preferable to an unpaid default, does not guarantee that a lender will not deny future credit based on this notation.



Susan helped finance her children's education with Federal PLUS Loans. After they graduated, she lost her job and had difficulty paying her bills. Her car was repossessed so her credit rating was damaged, but she did not default on her PLUS Loans. To gain new skills for the job market, she decided to return to school full time and is receiving Direct Loans while she studies to be a computer analyst. Susan wants to consolidate her Federal PLUS Loans and her new Direct Loans while she is in school. Can she?

Because Susan has an adverse credit history, she must obtain an eligible endorser for the PLUS part of the consolidation loan or document extenuating circumstances. Then she would be eligible for an in-school Direct Consolidation Loan.



Steve helped finance his children's education with Federal PLUS Loans. After they graduated, the payments piled up and Steve's income couldn't keep up. He defaulted on the loans. Steve has since made satisfactory repayment arrange-

ments with his FFEL loan holder to obtain additional federal student aid. For the purpose of regaining Title IV eligibility, six consecutive, voluntary, on-time, full monthly payments constitute satisfactory repayment arrangements.³ Now Steve is considering taking classes at a Direct Loan school half time to better his prospects for a raise. He also wants to consolidate. Can he?

Steve has some alternatives to consider. He could consolidate his defaulted Federal PLUS Loans and any new Direct Loans into an in-school Direct Consolidation Loan, but there is a drawback. With the six payments to his FFEL loan holder, Steve is already halfway to *rehabilitating* the defaulted loans, which would remove the default notation from his credit report. If Steve consolidates the defaulted loans, his credit report will bear the notation “default paid in full,” which, while preferable to an unpaid default, does not guarantee that a lender will not deny future credit based on this notation.

So a second option for Steve is to finish rehabilitating the defaulted loans, which may mean putting off school so that he can continue to make the payments. He must make 12 consecutive, voluntary, on-time, full monthly payments to the FFEL holder, and his loan must be resold. He could then return to school and consolidate the Federal PLUS Loans with any new Direct Loans.

Finally, Steve could return to school without consolidating or rehabilitating his loans. This option also has a drawback. Steve is not eligible for an in-school deferment on the defaulted Federal PLUS Loans. Thus, he would be expected to continue to make payments on the loans during school. Guaranty agencies are not required but are strongly encouraged to provide forbearance to such borrowers during an in-school period.⁴

³ See 34 CFR 682.200(b).

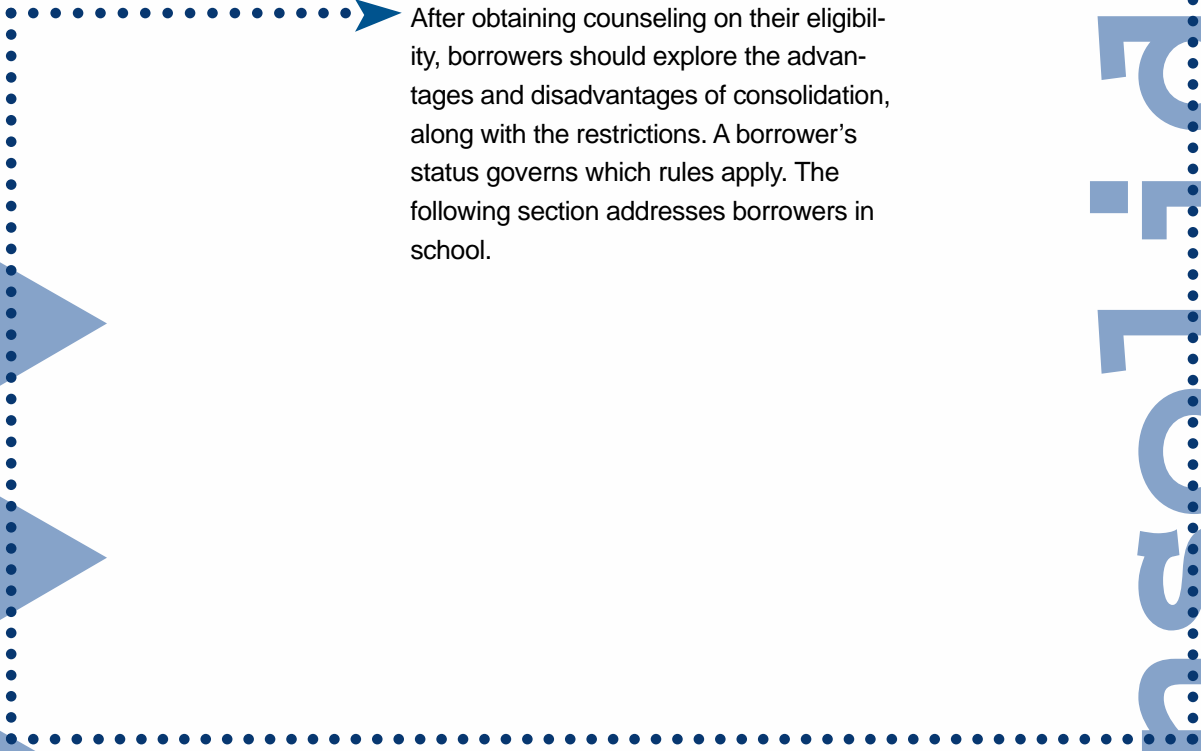
⁴ This recommendation can be found in the comments on 34 CFR 682.210 at 60 FR 61754 (December 1, 1995).

Definitions

<i>In-School Period:</i>	Generally, a student loan is considered to be in an in-school period from the time it is disbursed until the borrower ceases to be enrolled at an eligible school on at least a half-time basis. (However, a student loan that has entered and only partially completed the grace period because the borrower has reenrolled at least half time at an eligible school before the expiration of the six months is considered to be in an in-school period.)
<i>Satisfactory Repayment Arrangements:</i>	Under the Direct Loan and FFEL Programs, for the purpose of consolidation, three consecutive, voluntary, on-time, full monthly payments that are reasonable and affordable given the borrowers's total financial situation constitute satisfactory repayment arrangements. For the purpose of restoring eligibility for Title IV student aid, six consecutive, voluntary, on-time, full monthly payments that are reasonable and affordable given the borrower's total financial situation constitute satisfactory repayment arrangements. (Borrowers who are in default on other federal education loans must contact their current loan holders to determine how those loan holders define satisfactory repayment arrangements.)
<i>Reasonable and Affordable Payments:</i>	The holder of a Direct Loan or FFEL Program loan determines what constitutes a reasonable and affordable payment on a case-by-case basis. Loan holders consider disposable income and such expenses as housing, utilities, food, medical costs, work-related expenses, dependent care, and other Title IV education loans. Borrowers are then provided with a written statement of the payment and an opportunity to object to those terms. See 34 CFR 682.401(b)(4)(i) and 34 CFR 685.208(g)(3).
<i>Adverse Credit History:</i>	An applicant has an adverse credit history when he or she is 90 days or more delinquent on any debt or has been the subject of a default determination, bankruptcy discharge, foreclosure, repossession, tax lien, wage garnishment, or write-off of a Title IV education loan during the five years preceding the credit report. See 34 CFR 685.200(b)(7)(ii).
<i>Rehabilitation:</i>	The process of bringing a loan out of default and removing the default notation on a borrower's credit report. To rehabilitate a defaulted Direct Loan, a borrower must make 12 consecutive, voluntary, on-time, full monthly payments that are reasonable and affordable given the borrower's total financial situation on the defaulted loan. To rehabilitate a FFEL, a borrower must make 12 consecutive, voluntary, on-time, full monthly payments that are reasonable and affordable given the borrower's total financial situation on the defaulted loan, and the loan must be resold.



borrowers in school



➤ After obtaining counseling on their eligibility, borrowers should explore the advantages and disadvantages of consolidation, along with the restrictions. A borrower's status governs which rules apply. The following section addresses borrowers in school.

consolidation



Direct Loans

Eligible Loans

A borrower may consolidate one or more federal education loans in a Direct Consolidation Loan. The types of loans that may be consolidated into an in-school Direct Consolidation Loan are restricted. These are the only loans eligible for in-school consolidation:

- ▶ Direct Subsidized and Unsubsidized Loans
- ▶ Subsidized and Unsubsidized Federal Stafford Loans
- ▶ Direct PLUS Loans, Federal PLUS Loans, and Parent Loans for Undergraduate Students Loans
- ▶ Direct Consolidation Loans and Federal Consolidation Loans
- ▶ Guaranteed Student Loans
- ▶ Federal Insured Student Loans
- ▶ Federal Supplemental Loans for Students
- ▶ Auxiliary Loans to Assist Students

Other federal education loans are eligible for consolidation once a borrower enters repayment. (See Borrowers out of School page 2.)

Ineligible Loans

Some loans are always ineligible for consolidation. While these loans may not be included in a Direct Consolidation Loan, they may be considered in the calculation of a borrower's maximum repayment period under the Graduated or Extended Repayment Plan. These include but are not limited to the following:

- ▶ Loans made by a state or private lender and not guaranteed by the federal government
- ▶ Primary Care Loans
- ▶ Law Access Loans
- ▶ MedicalAssist Loans
- ▶ PLATO Loans

Advantages

- ▶ Consolidation holds many advantages for borrowers in school, especially convenience. To update an address, change student status or request deferment forms, a borrower need only call one loan holder, the Department of Education's Direct Loan Servicing Center. A borrower will no longer have to keep track of multiple loans and multiple lenders, and the Department of Education will not sell Direct Consolidation Loans. In-school consolidation is not available under the FFEL Program or with HEAL Refinancing.
- ▶ A Direct Consolidation Loan will receive a six-month grace period if one of the loans consolidated is in an *in-school period* at the time of application. Generally, a loan is considered to be in an in-school period from the time the loan is disbursed until the borrower ceases to be enrolled on at least a half-time basis. (If the borrower's enrollment status changes to less than half time after application but prior to the first disbursement of the Direct Consolidation Loan, the Direct Consolidation Loan will receive a grace period equal to the number of months of grace remaining when the first disbursement is made.)
- ▶ If none of the loans consolidated is in an in-school period and the borrower is not eligible for a deferment, the first payment on the Direct Consolidation Loan will be due within 60 days of the first disbursement of the loan. (Because the borrower's original federal education loans may be paid off through multiple disbursements, the first payment due date is calculated based on the first such disbursement.)
- ▶ A borrower in school may also benefit from a lower interest rate. The interest rate on all Direct Loans is variable but will never exceed 8.25 percent for student loans and 9 percent

for Direct PLUS Loans. The rate is adjusted annually on July 1. In addition, borrowers in school may benefit from a change in interest rate calculation during in-school, grace, and deferment periods. Effective July 1, 1995 through June 30, 1998, the formula for calculating interest during these periods on new subsidized and unsubsidized Direct Loans or FFELs, excluding PLUS Loans, is the 91-day Treasury bill rate plus 2.5 percentage points. The formula for calculating the interest rate on these loans during other periods is the average 91-day Treasury bill rate plus 3.1 percentage points. The formula for calculating the interest rate on Direct PLUS Loans is the average 52-week Treasury bill rate plus 3.1 percentage points.

- ▶ A borrower may take advantage of other benefits upon entering repayment. The minimum monthly payment on a Direct Consolidation Loan may be lower than the combined payments charged on a borrower's federal education loans. The repayment period on a Direct Consolidation Loan may be extended up to a maximum of 30 years under certain repayment plans, depending on a borrower's debt. (However, extending the repayment period will increase the total interest charged.) And a borrower may choose the ICR Plan, which bases monthly payments on a borrower's annual income and total Direct Loan amount. All Direct Loan borrowers send one payment to the Direct Loan Servicing Center instead of multiple checks to different lenders. (For more on the benefits of a Direct Consolidation Loan for borrowers in repayment, see Borrowers out of School page 3.)

- ▶ Varied deferment options are available on a Direct Consolidation Loan. Borrowers may be eligible for additional deferments if they have an outstanding balance on an FFEL made before July 1, 1993, when they obtain a Direct Consolidation Loan. (For more on deferments, see Postponing Repayment page 2.)

How Consolidation Works

When a borrower consolidates loans in the Direct Consolidation Loan Program, the federal government repays the original federal education loans and originates a new loan for the total. Here's how that works from a borrower's point of view.

Application

Applications are available from the Loan Origination Center. In the application mailing for in-school consolidation (Appendix A), a borrower will receive an application packet that contains questions and answers about consolidation, a comparison of loan benefits, instructions, a worksheet, an application, and a return envelope. A borrower should fill out the application accurately and completely. The application and any documentation that identifies the loan holder, loan ID and loan amounts of each loan should be submitted to the Loan Origination Center in the return envelope.

Hint! Borrowers should apply as soon as the loan that qualifies them for in-school consolidation is fully disbursed and before their last day of attendance to allow time for the application to be processed and to take full advantage of the six-month grace period.

When the Loan Origination Center receives a borrower's application it is edited and assigned an application identification number. This application ID becomes part of the loan identification numbers for each portion of a borrower's Direct Consolidation Loan. A Direct Consolidation Loan may be assigned up to three loan identification numbers depending on which loans the borrower chooses to include.

The loan identification numbers represent the portions of the Direct Consolidation Loan made up of the borrower's underlying subsidized, unsubsidized, and PLUS loans. The Loan Origination Center keeps track of these underlying loans and their associated requirements and benefits. The borrower, however, only has one new loan and one monthly payment.

Credit Check (for PLUS Consolidation Loans only)

If the application includes a PLUS Loan, the Loan Origination Center performs a credit check on the borrower. If the borrower passes the credit check, the borrower is notified and *verification* begins. If the borrower has an *adverse credit history*, the Loan Origination Center sends a letter (Appendix C) asking whether the borrower intends to continue the consolidation and outlining the borrower's options. The borrower may appeal the credit check, document extenuating circumstances, or obtain an eligible endorser for the PLUS part of the consolidation loan. The borrower may also choose to exclude the PLUS Loan from the consolidation and proceed with the rest. If the borrower indicates the consolidation is to continue, verification begins.

Verification

The Loan Origination Center, using information on the borrower's application and the support documentation provided by the borrower, attempts to verify the loan's eligibility for consolidation and its payoff balance. The center can verify electronically Direct Loans and defaulted loans held by the Department. For other loans, the center sends a verification certificate (Appendix D) to each loan holder to obtain that information. However, borrowers sometimes provide incomplete or inaccurate information on their applications because their loans have been sold or they have lost track of them. When loan information on the application is

insufficient, the Loan Origination Center may contact borrowers for more information and may consult the National Student Loan Data System.

Partial Consolidation

Sometimes loan verification can be a long process, but the Loan Origination Center keeps working to move the consolidation along. The Loan Origination Center reminds loan holders when verification certificates have not been returned and may ask a borrower to help by contacting a loan holder.

However, about 60 days after applying, the borrower has a choice to make. The Loan Origination Center will send the borrower a letter with a loan statement, which lists the loans that have been verified to date. The borrower may choose to proceed with a partial consolidation while waiting for the other loans to be verified. The Loan Origination Center will send the borrower supplemental promissory notes when additional loans are verified — as often as every 20 days.

The borrower may also choose to put a “hold” on the consolidation pending the verification of all loans or one in particular.

Promissory Note

A promissory note is mailed to borrowers after their loans are verified. The package (Appendix E) includes information on borrowers' rights and responsibilities, instructions, a promissory note, a loan statement, an endorser addendum if required, and a return envelope.

▶ The promissory note is the legal document by which a borrower promises to repay the consolidation loan; only the borrower's personal information may be altered, provided that the alterations are initialed. The promissory note provides subtotals for each of the loan types consolidated — subsidized, unsubsidized and PLUS — and a total for the Direct Consolidation Loan, allowing the

borrower to decide whether to proceed. (Borrowers who wish to change the loan amount must contact the Loan Origination Center.) **The promissory note should be signed, dated, and returned within two weeks of receipt.** If the borrower takes no action upon receipt of the promissory note, the consolidation will be canceled about 240 days after the borrower's application was received.

- ▶ The loan statement provides a listing of all loans that have been verified and included in the accompanying promissory note.
- ▶ An endorser addendum (Appendix F) is sent only if the consolidation loan includes a PLUS Loan and the borrower has an adverse credit history and has not documented extenuating circumstances. If the borrower chooses to obtain an eligible endorser, the addendum must be signed and returned with the promissory note. When the endorser addendum is received, a credit check on the endorser is completed.

Consolidation

When the Loan Origination Center receives a signed promissory note, the borrower's loan balances are paid off. The previous loan holders are required by regulation to notify the borrower that the loans have been paid in full.¹ The Department of Education notifies the borrower of the consolidation. Any payments a borrower makes to the previous loan holders after the loans are paid off will be forwarded to the Loan Origination Center. These payments will be applied to the consolidation loan balance.

No payments are due while the loan is in an in-school period. Borrowers of subsidized loans receive annual statements while in school. The federal government pays the interest on

¹ See 34 CFR 685.215(f)(2)

their loans while they are in school. Borrowers of unsubsidized loans receive quarterly statements (Appendix G) that note the amount of interest charged on their loans. These borrowers may either pay the interest or allow it to accumulate and have it *capitalized* when they enter repayment. (See Appendix H for a comparison of the results of capitalizing or paying the interest.)

Borrowers will receive a six-month grace period at the end of the in-school period on the entire consolidation loan, including the PLUS portion. After six months, the first payment will be due on the Direct Consolidation Loan. (If the borrower's enrollment status changes to less than half time after application but prior to the first disbursement of the Direct Consolidation Loan, the Direct Consolidation Loan will receive a grace period equal to the number of months of grace remaining when the first disbursement is made.)

Repayment

Before entering repayment, the borrower will receive information on repayment plans and will be asked to choose one. If the borrower neglects to choose a plan, the Department will assign the borrower to the Standard Repayment Plan. However, the borrower may change repayment plans at any time. (For more information, see the Repayment section.)

Questions & Answers



Can a borrower consolidate a loan that is in a grace period?

Yes, but the borrower should be encouraged to wait until the last month of grace to apply. Unless one of the loans the borrower is consolidating is in an in-school period, the first payment on a Direct Consolidation Loan is due within 60 days of the first loan disbursement. Thus, a borrower who applied too early would forfeit the remaining months of grace.



Can a borrower consolidate a loan that is in deferment?

Yes, but the borrower must reapply for the deferment once the loan has been consolidated.



Does a borrower have to reconsolidate with each new loan?

To add a “new” loan, that is, a loan that was not fully disbursed prior to the origination of a borrower’s Direct Consolidation Loan, the borrower must reapply through the Loan Origination Center. New loans are not included automatically in a Direct Consolidation Loan. However, if the new loan is a Direct Loan, the borrower does not need to reconsolidate, because all of the borrower’s Direct Loans will be combined into one bill. (See below for more on adding to a Direct Consolidation Loan.)



Can a borrower add loans to a Direct Consolidation Loan?

Preexisting eligible loans, that is, loans that were fully disbursed prior to the origination of a borrower’s Direct Consolidation Loan, may be added within 180 days of origination. The borrower must contact the Loan Origination Center to add such loans. If a preexisting eligible loan was listed on the borrower’s original application, the loan may be added with a phone call to the Loan Origination Center; if the loan was not listed on the original application, the borrower must request the loan’s addition in writing.

To add preexisting eligible loans after 180 days or to add “new” loans, a borrower must reapply through the Loan Origination Center.



Can a borrower use a loan that is partially disbursed to be eligible for in-school consolidation?

No, a partially disbursed loan does not qualify as an eligible loan.

Definitions

In-School Period: Generally, a student loan is considered to be in an in-school period from the time it is disbursed until the borrower ceases to be enrolled at an eligible school on at least a half-time basis. (However, a student loan that has entered and only partially completed the grace period because the borrower has reenrolled at least half time at an eligible school before the expiration of the six months is considered to be in an in-school period.)

Verification: The process of requesting that a loan holder certify a loan's payoff balance.

Adverse Credit History: An applicant has an adverse credit history when he or she is 90 days or more delinquent on any debt or has been the subject of a default determination, bankruptcy discharge, foreclosure, repossession, tax lien, wage garnishment, or write-off of a Title IV education loan during the five years preceding the credit report. See 34 CFR 685.200(b)(7)(ii).

Capitalization: The addition of accrued interest to the principal of a loan, increasing the cost of the loan.

Questions & Answers



Can a borrower consolidate a loan that is in a grace period?

Yes, but the borrower should be encouraged to wait the last month to apply. Unless one of the loans the borrower is consolidating is in an in-school period, the first payment on a Direct Consolidation Loan is due within 60 days of the first loan disbursement. Thus, a borrower who applied too early would forfeit the remaining months of grace.



Can a borrower consolidate a loan that is in deferment?

Yes, but the borrower must reapply for the deferment once the loan has been consolidated.



Does a borrower have to reconsolidate with each new loan?

To add a “new” loan, that is, a loan that was not fully disbursed prior to the origination of a borrower’s Direct Consolidation Loan, the borrower must reapply through the Loan Origination Center. New loans are not included automatically in a Direct Consolidation Loan. However, if the new loan is a Direct Loan, the borrower does not need to reconsolidate, because all of the borrower’s Direct Loans will be combined into one bill. (See below for more on adding to a Direct Consolidation Loan.)



Can a borrower add loans to a Direct Consolidation Loan?

Preexisting eligible loans, that is, loans that were fully disbursed prior to the origination of a borrower’s Direct Consolidation Loan, may be added within 180 days of origination. The borrower must contact the Loan Origination Center to add to such loans. If a preexisting eligible loan was listed on the borrower’s original application, the loan may be added with a phone call to the Loan Origination Center; if the loan was not listed on the original application, the borrower must request the loan’s addition in writing.

To add a preexisting eligible loans after 180 days or to add “new” loans, a borrower must reapply through the Loan Origination Center.

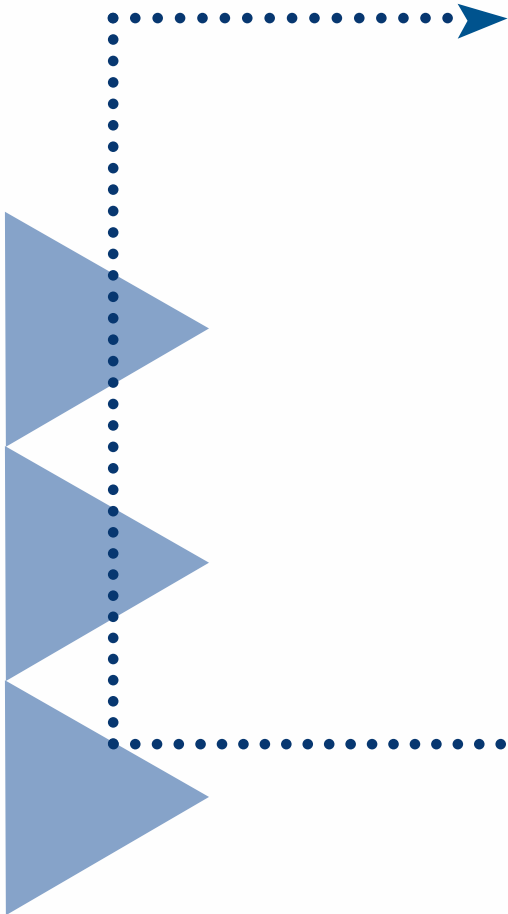


Can a borrower use a loan that is partially disbursed to be eligible for in-school consolidation?

No, a partially disbursed loan does not qualify as an eligible loan.



borrowers out of school



After obtaining counseling on their eligibility, borrowers should explore the advantages and disadvantages of consolidation, along with the restrictions. A borrower's status governs which rules apply. The following section addresses borrowers who are out of school (in grace, in repayment, or in deferment or forbearance).

Direct Loans

consolidation

Eligible Loans

A borrower may consolidate one or more federal education loans in a Direct Consolidation Loan. These are the loans eligible for consolidation out of school:

- ▶ Direct Subsidized and Unsubsidized Loans*
- ▶ Subsidized and Unsubsidized Federal Stafford Loans*
- ▶ Direct PLUS Loans, Federal PLUS Loans, and Parent Loans for Undergraduate Student Loans*
- ▶ Direct Consolidation Loans and Federal Consolidation Loans*
- ▶ Guaranteed Student Loans*
- ▶ Federal Insured Student Loans*
- ▶ Federal Supplemental Loans for Students*
- ▶ Auxiliary Loans to Assist Students*
- ▶ Federal Perkins Loans
- ▶ National Direct Student Loans
- ▶ National Defense Student Loans
- ▶ Health Education Assistance Loans
- ▶ Health Professions Student Loans
- ▶ Loans for Disadvantaged Students
- ▶ Nursing Student Loans

*Loans that are also eligible for in-school consolidation

Ineligible Loans

Some loans are always ineligible for consolidation. While these loans may not be included in a Direct Consolidation Loan, they may be considered in the calculation of a borrower's maximum repayment period under the Graduated or Extended Repayment Plan. These include but are not limited to the following:

- ▶ Loans made by a state or private lender and not guaranteed by the federal government
- ▶ Primary Care Loans
- ▶ Law Access Loans
- ▶ MedicalAssist Loans
- ▶ PLATO Loans

Advantages

- ▶ Consolidation holds many advantages for borrowers who are out of school, especially convenience. To update an address, change student status or request deferment forms, a borrower need only call one loan holder, the Department of Education's Direct Loan Servicing Center. A borrower will no longer have to keep track of multiple loans and multiple lenders, and the Department of Education will not sell Direct Consolidation Loans.
- ▶ All Direct Loan borrowers send one monthly payment to the Direct Loan Servicing Center instead of multiple checks to different lenders.

- ▶ A borrower out of school may also benefit from a lower interest rate. The interest rate on all Direct Loans is variable but will never exceed 8.25 percent for student loans and 9 percent for Direct PLUS Loans. The rate is adjusted annually on July 1. In addition, borrowers out of school may benefit from a change in the interest rate calculation during in-school, grace, and deferment periods. Effective July 1, 1995 through June 30, 1998, the formula for calculating interest during these periods on new subsidized and unsubsidized Direct Loans or FFELs, excluding PLUS Loans, is the 91-day Treasury bill rate plus 2.5 percentage points. The formula for calculating the interest rate on these loans during other periods is the average 91-day Treasury bill rate plus 3.1 percentage points. The formula for calculating the interest rate on Direct PLUS Loans is the average 52-week Treasury bill rate plus 3.1 percentage points.
- ▶ A Direct Consolidation Loan may also ease the strain on a borrower's budget. The minimum monthly payment on a Direct Consolidation Loan may be lower than the combined payments charged on a borrower's underlying federal education loans. The repayment period on a Direct Consolidation Loan may be extended up to a maximum of 30 years under certain repayment plans, depending on a borrower's debt. (However, extending the repayment period will increase the total interest charged.) And a borrower may choose the ICR Plan, which bases monthly payments on a borrower's annual income and total Direct Loan amount. (For more on repayment plans, see Repayment page 2.)

- ▶ Varied deferment options are available on a Direct Consolidation Loan. Borrowers may be eligible for additional deferments if they have an outstanding balance on a FFEL made before July 1, 1993, when they obtain a Direct Consolidation Loan. (For more on deferments, see Postponing Repayment page 2.)

How Consolidation Works

When a borrower consolidates loans in the Direct Consolidation Loan Program, the federal government repays the original federal education loans and originates a new loan for the total. Here's how that works from a borrower's point of view.

Estimate

Prior to applying for a Direct Consolidation Loan, a borrower may wish to receive an estimate of monthly payments under each of the repayment plans. The application mailing includes a Request for Estimated Repayment Information form (Appendix A) that may be sent in for an estimate. Application packages are available from the Loan Origination Center. Borrowers may also call the Loan Origination Center for an estimate.

U.S. Department of Education
Consolidation Department
Loan Origination Center
P.O. Box 242800
Louisville, KY 40224
(800) 557-7392
TDD: (800) 557-7395
FAX: (800) 557-7396

Borrowers should list all their federal education loans, including those they do not wish to consolidate and those that are ineligible, when talking to a customer service representative or filling out the form for an estimate. Loans that are not included in the consolidation are considered when calculating the length of repayment under the Extended or Graduated Repayment Plan. If a borrower would like an estimate of monthly payments under the ICR Plan, yearly income and family size must also be provided.

Borrowers who return the request form will receive a loan statement (Appendix B) with estimated repayment information from the Loan Origination Center. Borrowers who receive an estimate by phone may request that a loan statement be sent.

Application

A borrower may choose to apply with or without first receiving an estimate. Applications are available from the Loan Origination Center. In the application mailing (Appendix A), a borrower will receive an application packet that contains questions and answers about consolidation, a comparison of loan benefits, instructions, a worksheet, and an application. Also included in the mailing are an outline of the consolidation process, tips on completing the application materials, an overview of repayment plans, a "Request for Estimated Repayment" form, a "Repayment Selection" form, a "Consent to Disclosure of Tax Information" form, and a return envelope. A borrower should fill out the application accurately and completely and submit it to the Loan Origination Center in the return envelope. The Repayment Selection form, the "Consent to Disclosure of Tax Information" (if required) and the latest billing statement for all loans should be returned with the application to expedite the consolidation process.

- ▶ If the borrower neglects to choose a plan, the Department will assign the borrower to the Standard Repayment Plan. However, a borrower may change repayment plans at any time.
- ▶ The consent to disclosure of tax information form must be signed by borrowers who choose the ICR Plan and, if they are married, by their spouses. Borrowers who choose the ICR Plan must allow the Internal Revenue Service to release income figures necessary to calculate their monthly payment.

Credit Check (for PLUS Consolidation Loans only)

When the Loan Origination Center receives a borrower's application it is edited and assigned an application identification number. This application ID becomes part of the loan identification numbers for each portion of a borrower's Direct Consolidation Loan. A Direct Consolidation Loan may be assigned up to three loan identification numbers depending on which loans the borrower chooses to include.

The loan identification numbers represent the portions of the Direct Consolidation Loan made up of the borrower's underlying subsidized, unsubsidized, and PLUS loans. The Loan Origination Center keeps track of these underlying loans and their associated requirements and benefits. The borrower, however, only has one new loan and one monthly payment.

If the application includes a PLUS Loan, the Loan Origination Center performs a credit check on the borrower. If the borrower passes the credit check, the borrower is notified and *verification* begins. If the borrower has an *adverse credit history*, the Loan Origination Center sends a letter (Appendix C) asking whether the borrower intends to continue the consolidation and outlining the borrower's options. The borrower may appeal the credit check, document extenuating circumstances, or obtain an eligible endorser for the PLUS part of the consolidation loan. The borrower may also choose to exclude the PLUS Loan from the consolidation and proceed with the rest. If the borrower indicates the consolidation is to continue, verification begins.

Verification

The Loan Origination Center, using information on the borrower's application and the support documentation provided by the borrower, attempts to verify the loan's eligibility for consolidation and its payoff balance. The center can verify electronically Direct Loans and defaulted loans held by the Department. For other loans, the center sends a

verification certificate (Appendix D) to each loan holder to obtain that information. However, borrowers sometimes provide incomplete or inaccurate information on their applications because their loans have been sold or they have lost track of them. When loan information on the application is insufficient, the Loan Origination Center may contact borrowers for more information and may consult the National Student Loan Data System. Borrowers in repayment should continue to make payments until their previous loan holders notify them that their loans have been paid in full.

Partial Consolidation

Sometimes loan verification can be a long process, but the Loan Origination Center keeps working to move the consolidation along. The Loan Origination Center reminds loan holders when verification certificates have not been returned and may ask a borrower to help by contacting a loan holder.

However, about 60 days after applying, the borrower has a choice to make. The Loan Origination Center will send the borrower a letter with a loan statement, which lists the loans that have been verified to date. The borrower may choose to proceed with a partial consolidation while waiting for the other loans to be verified. The Loan Origination Center will send the borrower supplemental promissory notes when additional loans are verified — as often as every 20 days.

The borrower may also choose to put a “hold” on the consolidation pending the verification of all loans or one in particular.

Promissory Note

A promissory note is mailed to borrowers after their loans are verified. The package (Appendix E) includes information on borrowers' rights and responsibilities, instructions, a promissory note, a loan statement, an endorser addendum if required, and a return envelope.

- ▶ The promissory note is the legal document by which a borrower promises to repay the consolidation loan; only the borrower's personal information may be altered, provided that the alterations are initialed. The promissory note provides subtotals for each of the loan types consolidated — subsidized, unsubsidized and PLUS — and a total for the Direct Consolidation Loan, allowing the borrower to decide whether to proceed. (Borrowers who wish to change the loan amount must contact the Loan Origination Center.) **The promissory note should be signed, dated, and returned within two weeks of receipt.** If the borrower takes no action upon receipt of the promissory note, the consolidation will be canceled about 240 days after the borrower's application was received.
- ▶ The loan statement provides a listing of all loans that have been verified and included in the accompanying promissory note. The loan statement also includes repayment estimates. (These will be revised estimates for borrowers who requested repayment estimates earlier in the process.)
- ▶ An endorser addendum (Appendix F) is sent only if the consolidation loan includes a PLUS Loan and the borrower has an adverse credit history and has not documented extenuating circumstances. If the borrower chooses to obtain an eligible endorser, the addendum must be signed and returned with the promissory note. When the endorser addendum is received, a credit check on the endorser is completed.

Consolidation

When the Loan Origination Center receives a signed promissory note, the borrower's loan balances are paid off. The previous loan holders are required by regulation to notify the borrower that the loans have been paid in full.¹ The Department of Education notifies the borrower of the consolidation. Any payments a borrower makes to the previous loan holders after the loans are paid off will be forwarded to the Loan Origination Center. These payments will be applied to the consolidation loan balance.

Repayment

The first payment on the consolidation loan will be due within 60 days of the first disbursement on the loan. Because the borrower's underlying federal education loans may be paid off through multiple disbursements, the first payment due date is calculated based on the first such disbursement. There is no grace period on Direct Consolidation Loans unless the borrower consolidates at least one loan in an in-school period. (For more information, see the Repayment section.)

¹ See 34 CFR 685.215(f)(2) December 1, 1994.

Questions & Answers



Can a borrower consolidate a loan that is in a grace period?

Yes, but the borrower should be encouraged to wait until the last month of grace to apply. Unless one of the loans the borrower is consolidating is in an *in-school period*, the first payment on a Direct Consolidation Loan is due within 60 days of the first loan disbursement. Thus, a borrower who applied too early would forfeit the remaining months of grace.



Can a borrower consolidate a loan that is in deferment?

Yes, but the borrower must reapply for the deferment once the loan has been consolidated.



Does a borrower have to reconsolidate with each new loan?

To add a “new” loan, that is, a loan that was not fully disbursed prior to the origination of a borrower’s Direct Consolidation Loan, the borrower must reapply through the Loan Origination Center. New loans are not included automatically in a Direct Consolidation Loan. However, if the new loan is a Direct Loan, the borrower does not need to reconsolidate because all of the borrower’s Direct Loans will be combined into one bill. (See below for more on adding to a Direct Consolidation Loan.)



Can a borrower add loans to a Direct Consolidation Loan?

Preexisting eligible loans, that is, loans that were fully disbursed prior to the origination of a borrower’s Direct Consolidation Loan, may be added within 180 days of origination. The borrower must contact the Loan Origination Center to add such loans. If a pre-existing eligible loan was listed on the borrower’s original application, the loan may be added with a phone call to the Loan Origination Center; if the loan was not listed on the original application, the borrower must request the loan’s addition in writing.

To add preexisting eligible loans after 180 days or to add “new” loans, a borrower must reapply through the Loan Origination Center.



Is it ever wise to consolidate a loan with a lower interest rate, such as a Perkins Loan?


Borrowers should think twice before consolidating a loan with a lower interest rate. Some borrowers want the convenience of “one holder” for all of their loans and feel that outweighs the higher rate of interest. It’s an individual choice.

Definitions

<i>Verification:</i>	The process of requesting that a loan holder certify a loan's payoff balance.
<i>Adverse Credit History:</i>	An applicant has an adverse credit history when he or she is 90 days or more delinquent on any debt or has been the subject of a default determination, bankruptcy discharge, foreclosure, repossession, tax lien, wage garnishment, or write-off of a Title IV education loan during the five years preceding the credit report. See 34 CFR 685.200(b)(7)(ii).
<i>In-School Period:</i>	Generally, a student loan is considered to be in an in-school period from the time it is disbursed until the borrower ceases to be enrolled on at least a half-time basis. (However, a student loan that has entered and only partially completed the grace period because the borrower has reenrolled at least half time is also considered to be in an in-school period.)



borrowers in default



Consolidation has specific advantages, disadvantages, and restrictions for borrowers in default. In addition, borrowers in default must be made aware of the advantages of rehabilitating their loans. The following section addresses the options for borrowers in default.



Direct Loans

Consolidation

Rehabilitation

While consolidation holds many advantages for borrowers in default, borrowers should first consider *rehabilitation*, in which a loan is brought out of default and the default notation is removed from a borrower's credit record. Only Direct Loans and FFELs are eligible for rehabilitation.

To rehabilitate a Direct Loan, a borrower must make 12 *reasonable and affordable*, consecutive, voluntary, on-time, full monthly payments to the Department of Education. To rehabilitate an FFEL, a borrower must make 12 reasonable and affordable, consecutive, voluntary, on-time, full monthly payments to the holder of the defaulted loan, and the loan must be resold. Payments secured from a borrower on an involuntary basis, such as through wage garnishment or litigation, cannot be counted toward the borrower's 12 payments. The reasonable and affordable payment amount would have to be more than the amount of the involuntary payment.

A borrower who wishes to rehabilitate a FFEL on which a judgment has been entered must sign a new promissory note prior to the sale of the loan to an eligible lender. A borrower who wishes to rehabilitate a Direct Loan on which a judgment has been entered must also sign a new promissory note.

Note: It has been a loan industry practice not to repurchase FFEL Program loans with a balance of less than \$1,500. If a FFEL Program loan cannot be resold, it will not be rehabilitated.

Advantages

- ▶ A defaulted loan is reported to credit bureaus and may remain on a borrower's credit report for up to seven years. Rehabilitation removes the default notation from a borrower's credit report.
- ▶ Rehabilitation also reinstates a borrower's eligibility for Title IV aid. After six payments a borrower's eligibility is restored, but the borrower is expected to continue making payments toward rehabilitating the loan.
- ▶ A borrower is once again eligible for deferment after rehabilitation.
- ▶ Wage garnishment will end, and the Internal Revenue Service will no longer withhold a borrower's income tax refund.

Consolidation

Consolidation may help a borrower who cannot rehabilitate a defaulted loan get back on track. Some of the advantages of rehabilitation are available through consolidation.

Borrowers who are in default must meet additional requirements for consolidation. They must either agree to repay under the ICR Plan, or they must make *satisfactory repayment arrangements*. Under the Direct Loan and FFEL Programs, for the purpose of consolidation, three consecutive, voluntary, on-time, full monthly payments constitute satisfactory repayment arrangements. Borrowers must work with their current loan holders to set up *reasonable and affordable payments*. (Borrowers who are in default on other federal education loans must contact their current loan holders to determine how those loan holders define satisfactory repayment arrangements.) PLUS borrowers are not eligible for the ICR Plan and thus must make satisfactory repayment arrangements before they may consolidate a defaulted PLUS Loan.

Borrowers who have at least one loan in an *in-school period* and one defaulted loan must make satisfactory repayment arrangements before they are eligible for in-school consolidation. Borrowers who apply while in school but before making satisfactory repayment arrangements will be notified of this requirement, and their application will be canceled. They may reapply after making the required payments.

Borrowers who are in default also should be made aware of the addition of collection costs to their loan. When a defaulted Direct Loan or FFEL is included in a Direct Consolidation Loan, collection costs of up to 18.5 percent of the outstanding principal and interest will be added to the outstanding balance. When Perkins Loans and health professions loans are consolidated, collection costs are added then also. But collection costs on these loans are not capped and may exceed 18.5 percent of the outstanding principal and interest.

Eligible Loans

A borrower may consolidate one or more federal education loans in a Direct Consolidation Loan. These are the loans eligible for consolidation while a borrower is out of school and in default:

- ▶ Direct Subsidized and Unsubsidized Loans*
- ▶ Subsidized and Unsubsidized Federal Stafford Loans*
- ▶ Direct PLUS Loans, Federal PLUS Loans, and Parent Loans for Undergraduate Students Loans*
- ▶ Direct Consolidation Loans and Federal Consolidation Loans*
- ▶ Guaranteed Student Loans*
- ▶ Federal Insured Student Loans*
- ▶ Federal Supplemental Loans for Students*
- ▶ Auxiliary Loans to Assist Students*
- ▶ Federal Perkins Loans
- ▶ National Direct Student Loans
- ▶ National Defense Student Loans
- ▶ Health Education Assistance Loans
- ▶ Health Professions Student Loans
- ▶ Loans for Disadvantaged Students
- ▶ Nursing Student Loans

*Loans that are also eligible for in-school consolidation

Ineligible Loans

Some loans are always ineligible for consolidation. While these loans may not be included in a Direct Consolidation Loan, they may be considered in the calculation of a borrower's maximum repayment period. These include but are not limited to the following:

- ▶ Loans made by a state or private lender and not guaranteed by the federal government
- ▶ Primary Care Loans
- ▶ Law Access Loans
- ▶ MedicalAssist Loans
- ▶ PLATO Loans

Advantages

- ▶ A defaulted loan is reported to credit bureaus and may remain on a borrower's credit report for up to seven years. Consolidating a defaulted loan will result in a credit report bearing a notation that the defaulted loan was paid in full. This notation is preferable to an unpaid default, but it does not guarantee that lenders will not deny future credit, such as mortgages, auto loans or credit cards, based on this notation.
- ▶ Consolidation, like rehabilitation, reinstates a borrower's eligibility for Title IV aid.

- ▶ No payments are required as a precondition for consolidation if the borrower is eligible and agrees to repay under the ICR Plan.
- ▶ Wage garnishment will end, and the Internal Revenue Service will no longer withhold a borrower's income tax refund.
- ▶ Borrowers in default also benefit from the advantages available with all Direct Consolidation Loans, especially convenience. To update an address, change student status or request deferment forms, a borrower need only call one loan holder, the Department of Education's Direct Loan Servicing Center. A borrower will no longer have to keep track of multiple loans and multiple lenders, and the Department of Education will not sell Direct Consolidation Loans.
- ▶ A borrower may receive a lower interest rate. The interest rate on all Direct Loans is variable but will never exceed 8.25 percent for student loans and 9 percent for Direct PLUS Loans. The rate is adjusted annually on July 1. In addition, borrowers may benefit from a change in the interest rate calculation during in-school, grace and deferment periods. Effective July 1, 1995 through June 30, 1998, the formula for calculating interest during these periods on new subsidized and unsubsidized Direct Loans or FFELs, excluding PLUS Loans, is the 91-day Treasury bill rate plus 2.5 percentage points. The formula for calculating the interest rate on these loans during other periods is the average 91-day Treasury bill rate plus 3.1 percentage points. The formula for calculating the interest rate on Direct PLUS Loans is the average 52-week Treasury bill rate plus 3.1 percentage points.

- ▶ A Direct Consolidation Loan may also ease the strain on a borrower's budget. The minimum monthly payment on a Direct Consolidation Loan may be lower than the combined payments charged on a borrower's underlying federal education loans. The repayment period on a Direct Consolidation Loan may be extended up to a maximum of 30 years under certain repayment plans, depending on a borrower's debt. (However, extending the repayment period will increase the total interest charged.) In addition, a borrower may choose the ICR Plan, which bases monthly payments on a borrower's annual income and total Direct Loan amount. (For more on repayment plans, see Repayment page 2.)
- ▶ All Direct Loan borrowers send one payment to the Direct Loan Servicing Center instead of multiple checks to different lenders.
- ▶ Consolidation restores a defaulted borrower's eligibility for deferments, and varied deferment options are available on a Direct Consolidation Loan. Borrowers may be eligible for additional deferments if they have an outstanding balance on an FFEL made before July 1, 1993, when they obtain a Direct Consolidation Loan. (For more on deferments, see Postponing Repayment page 2.)

How Consolidation Works

When a borrower consolidates loans in the Direct Consolidation Loan Program, the federal government repays the original federal education loans and originates a new loan for the total. Here's how that works from a borrower's point of view.

Estimate

Prior to applying for a Direct Consolidation Loan, a borrower may wish to receive an estimate of monthly payments under each of the repayment plans. The Loan Origination Center can provide such an estimate by phone or provide the borrower with a Request for Estimated Repayment Information form (Appendix A) to return. (The application mailing for out of school borrowers includes the request form.)

U.S. Department of Education
Consolidation Department
Loan Origination Center
P.O. Box 242800
Louisville, KY 40224
(800) 557-7392
TDD: (800) 557-7395
FAX: (800) 557-7396

Borrowers should list all their federal education loans, including those they do not wish to consolidate and those that are ineligible, when talking to a customer service representative or filling out the form for an estimate. Loans that are not included in the consolidation are considered when calculating the length of repayment under the Extended or Graduated Repayment Plan. Borrowers in default, who are required to repay under the ICR Plan unless they have made satisfactory repayment arrangements, must include yearly income and family size for the estimate.

Borrowers who return the request form will receive a loan statement (Appendix B) with estimated repayment information from the Loan Origination Center. Borrowers who receive an estimate by phone may request that a loan statement be sent.

Application

Applications are available from the Loan Origination Center. For borrowers in school, the application mailing includes: an application packet that contains questions and answers about consolidation, a comparison of loan benefits, instructions, a worksheet, an application, and a return envelope. For borrowers out of school, this package (Appendix A) includes: all of the above and a Request for Estimated Repayment form, a Consent to Disclosure of Tax Information form, and an overview of repayment plans. A borrower should fill out the application accurately and completely and submit it to the Loan Origination Center in the return envelope. The latest billing statement for all loans or documents that identify each loan holding and amount(s) borrowed and required repayment forms should be returned with the application to expedite the consolidation process.

- ▶ Borrowers who are in default and have not made satisfactory repayment arrangements must select the ICR Plan.
- ▶ The consent to disclosure of tax information form must be signed by borrowers who choose the ICR Plan and, if they are married, by their spouses. Borrowers who choose the ICR Plan must allow the Internal Revenue Service to release income figures necessary to calculate their monthly payment.

When the Loan Origination Center receives a borrower's application it is edited and assigned an application identification number. This application ID becomes part of the loan identification numbers for each portion of a borrower's Direct Consolidation Loan. A Direct Consolidation Loan may be assigned up to three loan identification numbers depending on which loans the borrower chooses to include.

The loan identification numbers represent the portions of the Direct Consolidation Loan made up of the borrower's underlying subsidized, unsubsidized, and PLUS loans. The Loan Origination Center keeps track of these underlying loans and their associated requirements and benefits. The borrower, however, only has one new loan and one monthly payment.

Note: Borrowers who have at least one in-school loan and one defaulted loan must make satisfactory repayment arrangements to consolidate while in school. Borrowers who have not made satisfactory repayment arrangements will be notified that their application has been canceled. They may reapply after making the required payments.

Credit Check (for PLUS Consolidation Loans only)

If the application includes a PLUS Loan, the Loan Origination Center performs a credit check on the borrower. Because a defaulted loan will appear on a borrower's credit history, the Loan Origination Center will send a letter (Appendix C) asking whether the borrower intends to continue the consolidation and outlining the borrower's options. The borrower may appeal the credit check, document extenuating circumstances, or obtain an eligible endorser for the PLUS part of the consolidation loan. The borrower may also choose to exclude the PLUS Loan from the consolidation and proceed

with the rest. If the borrower indicates the consolidation is to continue, *verification* begins.

Verification

The Loan Origination Center, using information on the borrower's application and support documentation, attempts to verify the loan's eligibility for consolidation and its payoff balance. The center can verify electronically Direct Loans and defaulted loans held by the Department. For other loans, the center sends a verification certificate (Appendix D) to each loan holder to obtain that information. However, borrowers sometimes provide incomplete or inaccurate information on their applications because their loans have been sold or they have lost track of them. When loan information on the application is insufficient, the Loan Origination Center may contact borrowers for more information and may consult the National Student Loan Data System. Borrowers in repayment should continue to make payments until their previous loan holders notify them that their loans have been paid in full.

Partial Consolidation

Sometimes loan verification can be a long process, but the Loan Origination Center keeps working to move the consolidation along. The Loan Origination Center reminds loan holders when verification certificates have not been returned and may ask a borrower to help by contacting a loan holder.

However, about 60 days after applying, the borrower has a choice to make. The Loan Origination Center will send the borrower a letter with a loan statement, which lists the loans that have been verified to date. The borrower may choose to proceed with a partial consolidation while waiting for the other loans to be verified. The Loan Origination Center will send the borrower supplemental promissory notes when additional

loans are verified — as often as every 20 days.

The borrower may also choose to put a “hold” on the consolidation pending the verification of all loans or one in particular.

Promissory Note

A promissory note is mailed to borrowers after their loans are verified. This package includes: information on borrowers' rights and responsibilities, instructions, a promissory note, a loan statement, an endorser addendum if required, and a return envelope.

▶ The promissory note is the legal document by which a borrower promises to repay the consolidation loan; only the borrower's personal information may be altered, provided that the alterations are initialed. The promissory note provides subtotals for each of the loan types consolidated — subsidized, unsubsidized and PLUS — and a total for the Direct Consolidation Loan, allowing the borrower to decide whether to proceed. (Borrowers who wish to change the loan amount must contact the Loan Origination Center.) **The promissory note should be signed, dated, and returned within two weeks of receipt.** If the borrower takes no action upon receipt of the promissory note, the consolidation will be canceled about 240 days after the borrower's application was received.

▶ The loan statement provides a listing of all loans that have been verified and included in the accompanying promissory note. Borrowers in default may want to check the loan statement to see how collection costs have increased their loan total. For borrowers out of school, the loan statement also includes repayment estimates. (These will be revised estimates for borrowers who requested repayment estimates earlier in the process.)

- ▶ An endorser addendum (Appendix F) is sent only if the consolidation loan includes a PLUS Loan and the borrower has an *adverse credit history* and has not documented extenuating circumstances. If the borrower chooses to obtain an eligible endorser, the addendum must be signed and returned with the promissory note. When the endorser addendum is received, a credit check on the endorser is completed.

Consolidation

When the Loan Origination Center receives a signed promissory note, the borrower's loan balances are paid off. For defaulted loans, guaranty agencies are notified to release the loans, and fees and collection costs are paid. The previous loan holders are required by regulation to notify the borrower that the loans have been paid in full or, in the case of defaulted loans, transferred to the Department of Education.¹ The Department notifies the borrower of the consolidation. Any payments a borrower makes to the previous loan holders after the loans have been paid off or transferred will be forwarded to the Loan Origination Center. These payments will be applied to the consolidation loan balance.

Repayment

The first payment on the consolidation loan will be due within 60 days of the first disbursement on the loan. Because the borrower's original federal education loans may be paid off through multiple disbursements, the first payment due date is calculated based on the first such disbursement. There is no grace period on Direct Consolidation Loans unless the borrower consolidates at least one loan in an in-school period. (For more information, see the Repayment section.)

¹ See 34 CFR 685.215(f)(2) December 1, 1994.

Questions & Answers



Does a borrower have to reconsolidate with each new loan?

To add a “new” loan, that is, a loan that was not fully disbursed prior to the origination of a borrower's Direct Consolidation Loan, the borrower must reapply through the Loan Origination Center. New loans are not included automatically in a Direct Consolidation Loan. However, if the new loan is a Direct Loan, the borrower does not need to reconsolidate, but only to request combined billing. (See below for more on adding to a Direct Consolidation Loan.)



Can a borrower add loans to a Direct Consolidation Loan?

Preexisting eligible loans, that is, loans that were fully disbursed prior to the origination of a borrower's Direct Consolidation Loan, may be added within 180 days of origination. The borrower must contact the Loan Origination Center to add such loans. If a preexisting eligible loan was listed on the borrower's original application, the loan may be added with a phone call to the Loan Origination Center; if the loan was not listed on the original application, the borrower must request the loan's addition in writing.

To add preexisting eligible loans after 180 days or to add “new” loans, a borrower must reapply through the Loan Origination Center.



Can a borrower in default regain eligibility for Title IV aid more than once?

No, borrowers may regain their eligibility only once by making the required satisfactory repayment arrangements.



Can a borrower who consolidated a defaulted loan reconsolidate after defaulting again?

Borrowers who default again after consolidating a defaulted loan must obtain the Department's approval to reconsolidate.

Definitions

Rehabilitation:

The process of bringing a loan out of default and removing the default notation on a borrower's credit report. To rehabilitate a defaulted Direct Loan, a borrower must make 12 reasonable and affordable, consecutive, voluntary, on-time, full monthly payments on the defaulted loan. To rehabilitate a FFEL, a borrower must make 12 reasonable and affordable, consecutive, voluntary, on-time, full monthly payments on the defaulted loan, and the loan must be resold.

Reasonable and Affordable Payments:

The holder of a Direct Loan or FFEL Program loan determines what constitutes a reasonable and affordable payment on a case-by-case basis. Loan holders consider disposable income and such expenses as housing, utilities, food, medical costs, work-related expenses, dependent care, and other Title IV education loans. Borrowers are then provided with a written statement of the payment and an opportunity to object to those terms. See 34 CFR 682.401(b)(4)(i) and 34 CFR 685.208(g)(3).

Satisfactory Repayment Arrangements:

Under the Direct Loan and FFEL Programs, for the purpose of consolidation, three consecutive, voluntary, on-time, full monthly payments that are reasonable and affordable given the borrower's total financial situation constitute satisfactory repayment arrangements. For the purpose of restoring eligibility for Title IV student aid, six consecutive, voluntary, on-time, full monthly payments that are reasonable and affordable given the borrower's total financial situation constitute satisfactory repayment arrangements. (Borrowers who are in default on other federal education loans must contact their current loan holders to determine how those loan holders define satisfactory repayment arrangements.)

In-School Period:

Generally, a student loan is considered to be in an in-school period from the time it is disbursed until the borrower ceases to be enrolled at an eligible school on at least a half-time basis. (However, a student loan that has entered and only partially completed the grace period because the borrower has reenrolled at least half time at an eligible school before the expiration of the six months is considered to be in an in-school period.)

Verification:

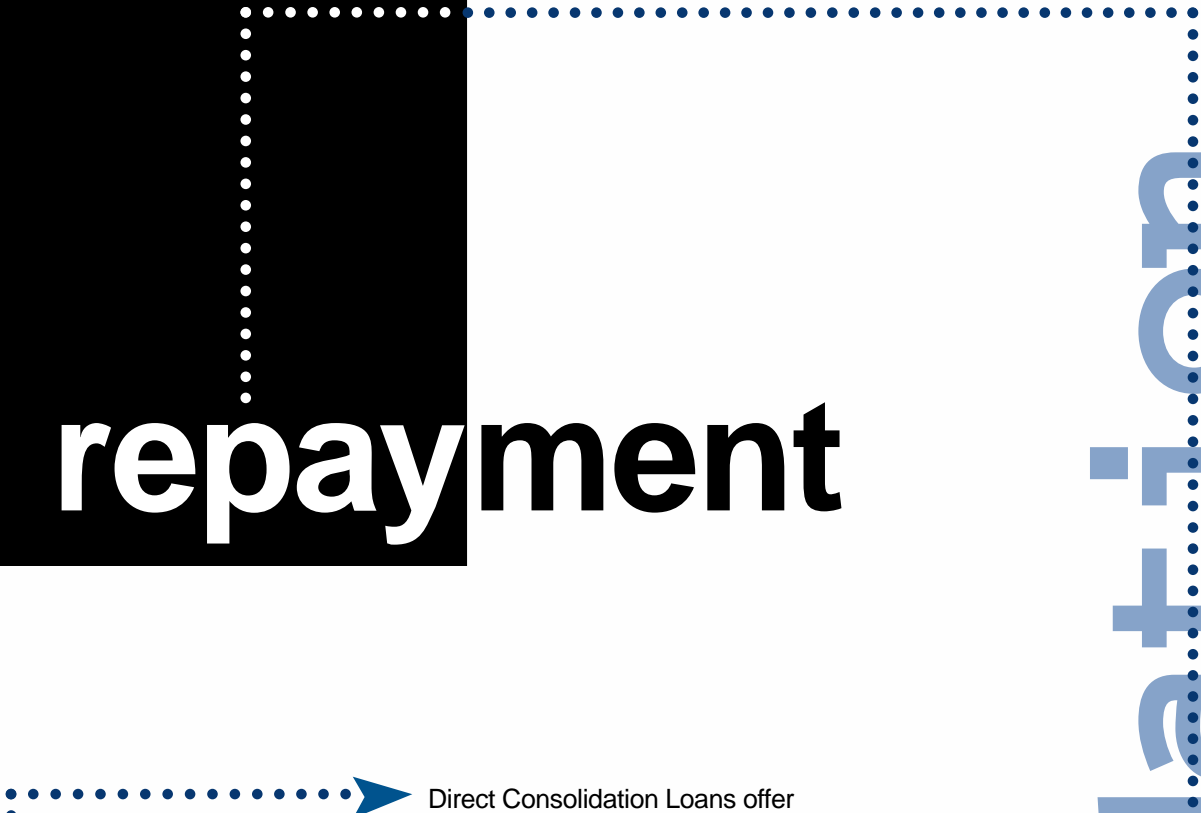
The process of requesting that a loan holder certify a loan's payoff balance.

Adverse Credit History:

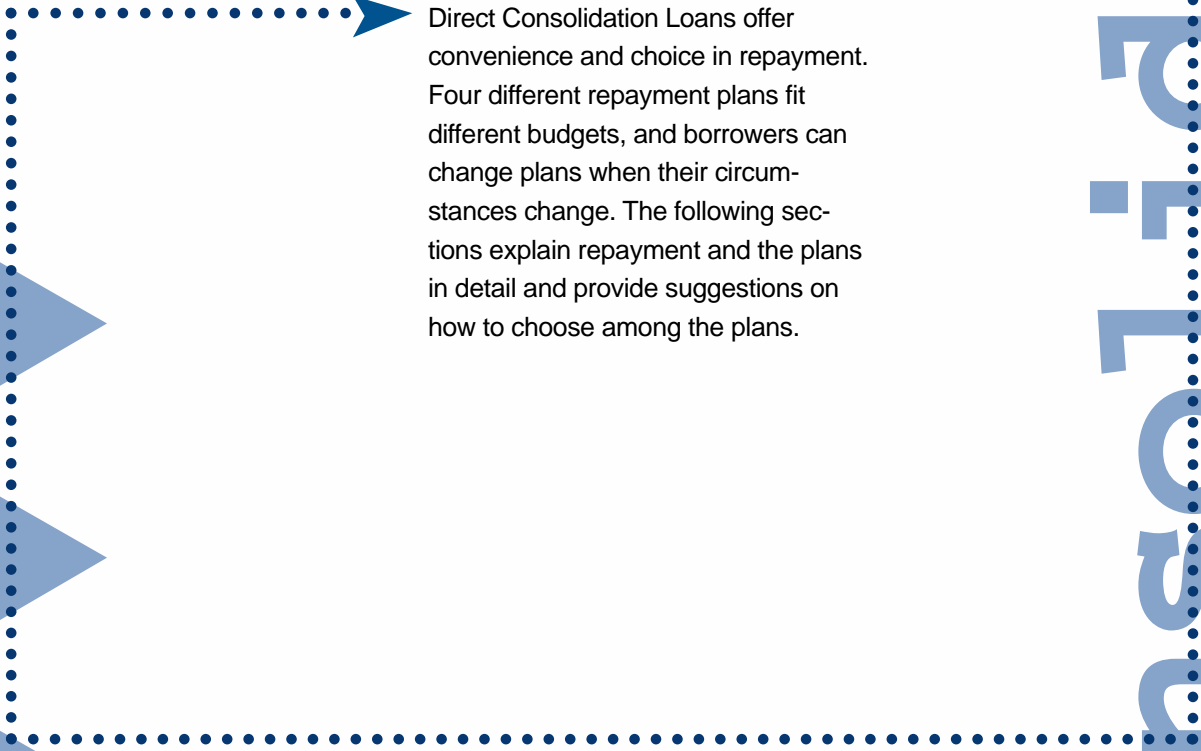
An applicant has an adverse credit history when he or she is 90 days or more delinquent on any debt or has been the subject of a default determination, bankruptcy discharge, foreclosure, repossession, tax lien, wage garnishment, or write-off of a Title IV education loan during the five years preceding the credit report. See 34 CFR 685.200(b)(7)(ii).



repayment



Direct Consolidation Loans offer convenience and choice in repayment. Four different repayment plans fit different budgets, and borrowers can change plans when their circumstances change. The following sections explain repayment and the plans in detail and provide suggestions on how to choose among the plans.



consolidation



Direct Loans

Repayment Plans

Before entering repayment, borrowers are sent information on the four plans:

- ▶ Standard Repayment Plan: fixed payments over 10 years or less
- ▶ Extended Repayment Plan: lower monthly payments than through the Standard Plan over a longer term, 12 to 30 years
- ▶ Graduated Repayment Plan: payments that rise gradually over 12 to 30 years
- ▶ Income Contingent Repayment Plan: payments that are linked to a borrower's income and total Direct Loan debt and spread over a term of up to 25 years

All four repayment plans are available to borrowers of Direct Subsidized and Unsubsidized Consolidation Loans. Direct PLUS Consolidation Loan borrowers may not choose the ICR Plan.

Borrowers who consolidate loans from more than one category (subsidized, unsubsidized and PLUS) still have only one Direct Consolidation Loan and make only one payment. (Remember, the Direct Loan Servicing Center tracks the underlying loans and interest rates.) In general, borrowers choose only one repayment plan. However, borrowers who consolidate a PLUS Loan with student loans may repay the PLUS portion under a different plan than the rest of the consolidation loan.

Borrowers who don't choose a plan are assigned to the Standard Repayment Plan; however, borrowers may change plans at any time.

If a borrower can document that none of these plans meets his needs, the borrower may request an alternative repayment plan by contacting the Direct Loan Servicing Center. Such a plan would be provided only on a case-by-case basis.

Standard Repayment Plan

With the Standard Plan, borrowers make fixed monthly payments of at least \$50 for up to 10 years. Some borrowers pay less interest in this plan than the others because the repayment period is shorter. In general, the shorter the repayment period, the lower the total interest paid. (See Example A below.)

Example A

This example shows a Direct Subsidized Consolidation Loan repaid at an 8.25 percent interest rate under the Standard Repayment Plan for 10 years (120 payments).

Loan Amount	Beginning Monthly Payment	Total Amount Repaid
\$15,000	\$184	\$22,080*

*\$15,000 in principal and \$7,080 in interest

Extended Repayment Plan

With the Extended Plan, borrowers make fixed monthly payments of at least \$50 over a 12- to 30-year period, depending on the borrower's education debt. (See the table below.) Education loans that are not included in the consolidation may be considered when calculating the length of repayment under the Extended Plan; however, they may not exceed the amount of the Direct Consolidation Loan. Borrowers with small loans may repay in less than 12 years because they must make at least the \$50 minimum payment.

Extended/Graduated Repayment Table

<i>Amount of Debt</i>	<i>Length of Repayment Period May Not Exceed</i>
Less than \$10,000	12 years
\$10,000 - \$19,999	15 years
\$20,000 - \$39,999	20 years
\$40,000 - \$59,999	25 years
\$60,000 or more	30 years

Because most borrowers take longer than 10 years to repay their loans under the Extended Plan, their monthly payments are lower than they would be in the Standard Plan. However, the amount they repay is greater because they pay more interest. (See Example B below.)

Example B

This example shows a Direct Subsidized Consolidation Loan repaid at an 8.25 percent interest rate under the Extended Repayment Plan for 15 years (180 payments).

Loan Amount	Beginning Monthly Payment	Total Amount Repaid
\$15,000	\$146	\$26,280*

*\$15,000 in principal and \$11,280 in interest

Graduated Repayment Plan

Under the Graduated Plan, payments start out low and increase, generally, every two years. The length of the repayment period will vary from 12 to 30 years, depending on the borrower's education debt. (See the table on page 4.) Education loans that are not included in the consolidation may be considered when calculating the length of repayment under the Graduated Plan; however, they may not exceed the amount of the Direct Consolidation Loan.

This plan works for borrowers who expect their income to increase steadily over time. A borrower's minimum monthly payment is the greater of the interest that accumulates on the loan between payments or half of what the borrower would pay under the Standard Plan. The maximum monthly payment is 1.5 times what the borrower would pay under the Standard Plan. Generally, borrowers repay more over the term of the loan in the Graduated Plan than in the Extended Plan. However, the Graduated Plan offers lower payments when borrowers are just starting out in their careers. (See Example C below.)

Example C

This example shows a Direct Subsidized Consolidation Loan repaid at an 8.25 percent interest rate under the Graduated Repayment Plan for 15 years (180 payments).

Loan Amount	Beginning Monthly Payment	Ending Monthly Payment	Total Amount Repaid
\$15,000	\$105	\$238	\$28,628*

*\$15,000 in principal and \$13,628 in interest

Note: Regulations published December 1, 1995, made substantial changes to the Income Contingent Repayment Plan. The following revised plan took effect July 1, 1996.

Income Contingent Repayment Plan

The ICR Plan gives borrowers the flexibility to meet their obligations without causing them financial hardship. A borrower's monthly payment is based on annual Adjusted Gross Income (AGI), as reported on a federal tax return or, if a borrower submits alternative documentation of income, on current income and the total amount of the borrower's Direct Loans.

To participate in the ICR Plan, borrowers (and if married, their spouses) must sign the Income Contingent Repayment Plan Consent to Disclosure of Tax Information (included in the promissory note packet for out of school borrowers). This allows the IRS to release income information to the Department of Education to calculate monthly payments. Borrowers' monthly payments are adjusted annually to reflect income and interest rate changes.

The monthly payments of borrowers with low incomes may not keep up with the interest accruing on their loans. In such cases, the unpaid interest is *capitalized* annually until the loan principal has increased by 10 percent. After that, interest continues to accrue but is not added to the principal. (This limit does not apply to interest that accrues during deferment or forbearance.)

The maximum repayment period in the ICR Plan is 25 years. Earlier payment periods for borrowers who began repaying in the Standard Plan or 12-year Extended Plan count toward the 25-year maximum. Earlier payment periods in other plans do not count toward the maximum. If a borrower has not fully repaid the Direct Consolidation Loan after 25 years, the unpaid portion will be discharged. However, the borrower must pay taxes on the portion discharged.

Alternative Documentation of Income

Alternative documentation of income is required from borrowers in their first year of repayment because their reported AGI may not reflect their current income. Borrowers in their second year of repayment will probably be required to provide alternative documentation of income also. Such documentation includes pay stubs, canceled checks, or, if these are unavailable, a signed statement explaining income sources. This requirement does not apply to borrowers with new consolidation loans if they have been in repayment on their underlying loans for two years.

Other borrowers who may be required to submit alternative documentation of income include those whose AGI is not available or whose AGI does not reasonably reflect their current income. In addition, borrowers may choose to submit alternative documentation of current income, if special circumstances, such as loss of employment, warrant a payment adjustment.

Calculating Payments

Until the Department receives income information from the IRS or alternative documentation of income, borrowers' monthly payments are equal to the interest that accrues each month. If they are unable to make those payments, borrowers may request a forbearance until their monthly payments are calculated based on their income information.

Under the new plan, the monthly payment would be zero for borrowers with incomes less than or equal to the U.S. Department of Health and Human Services poverty level for their family size. (Appendix I) Borrowers whose calculated monthly payment is greater than zero but less than \$5 are required to make a \$5 monthly payment. Other borrowers must pay the calculated monthly payment.

Because the ICR Plan is designed to keep payments affordable, it contains calculations to protect low-income borrowers. Borrowers pay the lesser of

- ▶ the amount they would pay if they repaid their loan in 12 years multiplied by an income percentage factor that varies with their annual income
- ▶ 20 percent of their *discretionary income* (AGI minus the poverty level for their family size)

Monthly payments are calculated as follows:

..... **Step 1:** Determine monthly payments based on what the borrower would pay over 12 years in equal monthly installments. To do this, multiply the principal balance by the *constant multiplier* for the interest rate on the borrower's loan. (See Appendix J. If the exact interest rate is not listed, choose the next highest rate for estimation purposes.)

..... **Step 2:** Multiply the result by the income percentage factor that corresponds to the borrower's income. (See Appendix K. If the borrower's income is not listed, choose the factor corresponding to the next highest income for estimation purposes.)

..... **Step 3:** One of the ICR Plan's protective measures is that borrowers' payments will never exceed 20 percent of their discretionary income. To determine 20 percent of a borrower's discretionary income, first subtract the poverty guideline for the borrower's family size (Appendix I) from the borrower's income to get the borrower's annual discretionary income. Multiply the result by 20 percent. Then divide that figure by 12 to get the borrower's monthly payment.

Borrowers' monthly payments will be the lesser of the result in step 2 or step 3. (See Example D on the following page.)

Example D

This example shows a borrower with a family size of one and a \$30,000 AGI repaying a \$15,000 Direct Subsidized Consolidation Loan at an 8.25 percent interest rate under the ICR Plan.

Loan Amount	Adjusted Gross Income	Beginning Monthly Payment	Number of Years in Repayment	Total Repayment
\$15,000	\$30,000	\$149*	14	\$24,792**

*Calculated as follows:

Step 1: Multiply the principal balance by the constant multiplier for 8.25% interest (.0109621).

(For constant multipliers, see Appendix J.)

$$0.0109621 \times 15,000 = 164.4315$$

Step 2: Multiply the result by the income percentage factor that corresponds to the borrower's income.

(For income percentage factors, see Appendix K.)

$$90.89\% (0.9089) \times 164.4315 = \$149$$

Step 3: Determine 20 percent of discretionary income. *** (See Appendix I for poverty guidelines chart.)

$$[\$30,000 - \$7,890] \times 0.20 \div 12 = \$369$$

Step 4: Payment is the amount determined in step 2 because it is less than 20 percent of discretionary income.

**\$15,000 in principal and \$9,792 in interest

***Poverty guideline for a family size of one

Payments for Married Borrowers

The income of both spouses is considered when a married borrower repays under the ICR Plan. Both incomes are considered whether a couple repays jointly or separately and whether they file joint or separate tax returns. Further, married borrowers who submit alternative documentation of income (see page 7) also will be required to submit alternative documentation of income for their spouses.

The monthly payments of married borrowers repaying jointly are based on their joint debt and their joint income. While married borrowers are not required to repay their loans jointly, it is important to remember that if only one spouse chooses to repay under the ICR Plan, the Department will use the AGI (or alternative documentation of income) for both spouses to determine a monthly payment. (See Example E on the following page.)

Example E

This example shows a married couple with a family size of two and a \$25,000 AGI. They are jointly repaying a \$15,000 Direct Subsidized Consolidation Loan (\$10,000 for one spouse and \$5,000 for the other) at an 8.25 percent interest rate under the ICR Plan.

Loan Amount	Adjusted Gross Income	Beginning Monthly Payment	Number of Years in Repayment	Total Repayment
\$15,000	\$25,000	\$131*	16	\$27,083**

*Calculated as follows:

Step 1: Add the Direct Loan balances of the husband and wife together to determine the aggregate loan balance.

$$\$5,000 + \$10,000 = \$15,000$$

Step 2: Multiply the principal balance by the constant multiplier for 8.25% interest (.0109621). (For constant multipliers, see Appendix J.)

$$0.0109621 \times 15,000 = 164.4315$$

Step 3: Multiply the result by the income percentage factor that corresponds to the joint income. (For income percentage factors, see Appendix K.)

$$79.91\% (0.7991) \times 164.4315 = \$131$$

Step 4: Determine 20 percent of discretionary income.*** (See Appendix I for poverty guidelines chart.)

$$[\$25,000 - \$10,610] \times 0.20 \div 12 = \$240$$

Step 5: Payment is the amount determined in step 3 because it is less than 20 percent of discretionary income.

**\$15,000 in principal and \$12,083 in interest

***Poverty guideline for a family size of two

Choosing a Plan

Borrowers may compare monthly payments and the total amount repaid under the four plans by using the worksheets in Appendix L and the chart in Appendix M. However, the choice of a repayment plan should not be solely based on the monthly payment. Each plan has specific advantages.

Borrowers who select the Standard Plan have a **shorter repayment period** than under the other plans. They pay off their loan quickly and pay less interest than under the other plans. However, the Standard Plan may require high monthly payments.

Borrowers who expect to have a good income benefit from the Standard Plan. Borrowers who think a higher monthly payment would be difficult to manage or who are unsure of their income would be better off with another plan.

Borrowers who select the Extended or Graduated plans will have a **longer repayment period** than under the Standard Plan. Thus, they will likely have lower monthly payments than under the Standard Plan, but pay more interest over the life of the loan. Under the Extended Plan, payments are fixed, and borrowers generally pay less interest than under the Graduated Plan.

The Standard and Extended plans offer fixed payments for borrowers. However, borrowers who prefer to make **smaller payments at first** and larger payments as their income rises benefit from the Graduated Plan.

Note: Direct PLUS Loans and Direct PLUS Consolidation Loans are not eligible for Income Contingent Repayment.

Borrowers who select the ICR Plan have monthly payments that vary with their annual income. Borrowers with low

incomes probably will have longer repayment periods than they would receive under another plan. As a result, borrowers pay more in interest, but should have an easier time keeping up with monthly payments and avoiding default. When a borrower's income increases, the monthly payment increases. This reduces the repayment period and the interest paid over time. In general, borrowers who want **manageable monthly payments** given their income will benefit from the ICR Plan.

Changing Plans

Most borrowers may change repayment plans at any time. Borrowers who were in default and had agreed to repay under the ICR Plan must make three monthly payments before switching to another plan. There is no limit to the number of times borrowers may change plans.

- ▶ A borrower may change to the ICR Plan at any time. After the switch, the borrower's repayment period will be 25 years, less any time spent in the ICR, Standard, and 12-year Extended plans. Time spent in the Extended Plan under the 15- to 30-year periods and in the Graduated Plan does not count toward the 25-year maximum.
- ▶ A borrower may change to another plan as long as that plan has a repayment term longer than the amount of time the borrower has already spent in repayment. For example, a borrower in the Extended Plan may only change to the Standard Plan if the borrower has spent fewer than 10 years in repayment. The new repayment term will be determined by subtracting the amount of time a borrower has spent in repayment from the term allowed under the new plan. For example, a borrower who has spent three years in the Extended Plan would have a new seven-year repayment period under the Standard Plan.

Coming Soon! The Department of Education plans to offer borrowers new options for repaying their loans. Borrowers may soon have payments deducted electronically from a bank account or automatically from their paycheck.

Making Payments

For most borrowers, repayment begins 60 days after the first disbursement on the Direct Consolidation Loan. For borrowers with an in-school Direct Consolidation Loan, repayment begins after their six-month grace period expires.

Borrowers will receive a billing statement from the Direct Loan Servicing Center each month for the first year of the repayment period. Borrowers in certain repayment plans who have been in repayment for a year and are current will receive a book of monthly payment coupons.

Monthly payments are adjusted each year in July to reflect changes in the variable interest rate unless the borrower requests that the monthly payments remain the same and the number of monthly payments be extended if necessary.

Borrowers can prepay a Direct Consolidation Loan at any time without penalty. If a borrower makes a payment that exceeds the required monthly payment, the prepayment will be applied in this order: first to any charges or collection costs, then to outstanding interest, and last to principal. However, if a borrower's account is current, the prepayment is applied entirely to principal and, unless the borrower specifies otherwise, the next payment due date is advanced. The borrower will be notified of a revised due date.

Borrowers must keep the Direct Loan Servicing Center informed of any name or address changes. They are responsible for making payments on time regardless of whether they receive billing statements or a coupon book. Borrowers should send payments to:

U.S. Department of Education
Direct Loan Payment Center
P.O. Box 746000
Atlanta, GA 30374-6000

Questions & Answers



Under what plan do borrowers repay when they consolidate both a PLUS Loan (excluded from the ICR Plan) and a defaulted loan on which they have not made satisfactory repayment arrangements (ICR Plan only)?

Borrowers in this situation are placed in two repayment plans: Standard, Graduated or Extended for the PLUS portion and ICR for the portion in default. These borrowers still have only one loan and make one monthly payment. The Direct Loan Servicing Center keeps track of the underlying calculations.



Can a borrower choose to repay under two repayment plans?

In general, no. However, borrowers who consolidate a PLUS Loan and other loans may choose to repay the PLUS portion under the Standard, Graduated or Extended Plan and the non-PLUS portion under any plan. These borrowers still have only one loan and make one monthly payment. The Direct Loan Servicing Center keeps track of the underlying calculations. In addition, circumstances may require that a borrower

Definitions

Capitalization:

repay under two plans. See above.

Discretionary Income:

The addition of accrued interest to the principal of a loan, increasing the cost of the loan.

Constant Multiplier:

A borrower's federal Adjusted Gross Income (AGI) minus the U.S. Department of Health and Human Services poverty level for the borrower's family size.

A factor used to calculate payments at a given interest rate over a fixed period of time.



The diagram illustrates a process flow. At the bottom left, the text 'Direct Loans' is positioned next to three blue triangles pointing right. A dotted line extends from this area, moves up, then right, then up again, ending with an arrow pointing to a text box. To the right of this text box, another dotted line extends vertically upwards, then turns left to connect to the word 'postponing' in the main title. The word 'Consolidation' is written vertically on the right side of the diagram, with the dotted line passing through it.

postponing repayment

➤ Borrowers who are having trouble making their monthly payments may be able to postpone repayment through *deferment* or *forbearance*. Each has separate conditions and requirements.

Direct Loans

Consolidation

Deferment

Borrowers who qualify for a deferment may temporarily postpone payments on their loan. The federal government pays the interest charged on subsidized consolidation loans during a deferment, but the borrower is responsible for interest charged on unsubsidized and PLUS consolidation loans. The borrower may either pay the interest as it accrues or allow it to accumulate and be *capitalized* when the deferment period ends. For borrowers whose consolidation loan contains subsidized as well as unsubsidized and PLUS portions, interest will only be charged on the unsubsidized and PLUS portions.

Note: The length of a repayment period does not include periods of deferment.

The following sections and Appendix N outline the deferments available on Direct Consolidation Loans.

For all Direct Consolidation Loans, deferments are available for borrowers who meet at least one of the following conditions:

- ▶ The borrower is enrolled at least half time at an eligible school. (Borrowers participating in a medical internship or residency — except for a dentistry residency — are not eligible for this deferment. For information on forbearance, see page 6.)

- ▶ The borrower is enrolled full time in a graduate fellowship program approved by the Department of Education.
- ▶ The borrower is enrolled full time in a rehabilitation training program that is approved by the Department of Education.
- ▶ The borrower is unemployed and seeking but unable to find full-time employment. Eligibility for this deferment is limited to three years.
- ▶ The borrower is experiencing or will experience an economic hardship. Criteria for this deferment include receiving payment under a public assistance program or earning a salary below the poverty line. Contact the Direct Loan Servicing Center for more information or see 34 CFR 685.204(b)(3) and 34 CFR 682.210(s)(6).

Borrowers who had an outstanding balance on a FFEL made before July 1, 1993, at the time they obtained their Direct Consolidation Loan may be eligible for additional deferments under the following conditions:

- ▶ The borrower is serving in a required internship or residency program. Eligibility for this deferment is limited to two years.
- ▶ The borrower is temporarily totally disabled or required to provide full-time care for a temporarily totally disabled dependent. Eligibility for this deferment is limited to three years.
- ▶ The borrower is teaching in a designated teacher shortage area. Eligibility for this deferment is limited to three years, and Direct PLUS Consolidation Loans are ineligible.

- ▶ The borrower is serving in the U.S. Armed Forces, Peace Corps, or the Commissioned Corps of the Public Health Service, or serving as a full-time paid volunteer for a tax-exempt organization or an ACTION program. Under certain circumstances, members of the reserve component of the National Guard or the U.S. Armed Forces who are on active duty also may qualify for this deferment. Eligibility for this deferment is limited to three years.
- ▶ The borrower is serving on active duty in the National Oceanic and Atmospheric Administration. Eligibility for this deferment is limited to three years, and Direct PLUS Consolidation Loans are ineligible.
- ▶ The borrower is pregnant, caring for a newborn child, or caring for a newly adopted child. The borrower must not be working full time or attending school, but must have attended at least half time within the six months preceding application for this deferment. Eligibility for this deferment is limited to six months, and Direct PLUS Consolidation Loans are ineligible.
- ▶ The borrower is the mother of a preschool-age child. The borrower must be working at least 30 hours per week at a salary of no more than \$1 more than the federal minimum wage. The borrower must also have entered or reentered the work force within one year preceding application for this deferment. Eligibility for this deferment is limited to one year, and Direct PLUS Consolidation Loans are ineligible.

PLUS borrowers who had an outstanding balance on an FFEL made before July 1, 1993, at the time they obtained their Direct Consolidation Loan may be eligible for additional deferments if the student for whom they borrowed PLUS Loans is dependent and meets at least one of the following conditions:

- ▶ The student is enrolled full time at an eligible school.
- ▶ The student is enrolled at least half time at an eligible school and has received a Direct Loan or FFEL for that period of enrollment.
- ▶ The student is enrolled full time in an approved graduate fellowship program.
- ▶ The student is enrolled full time in an approved rehabilitation training program.

Note: Married borrowers are eligible for a deferment on a joint consolidation loan only if both spouses are eligible for a deferment; however, they do not have to meet the requirements for the same deferment.

Borrowers who meet any of these conditions and want to postpone repayment of their loan must call or write the Direct Loan Servicing Center to ask for the appropriate form. They will be asked to document that they meet the requirements for the deferment they are requesting. For example, a borrower who is requesting an unemployment deferment will be asked to document his search for a job. The deferment forms (Appendix O) explain what proofs will be accepted.

Note: Borrowers will lose the deferments that apply to their underlying loans and gain the deferments available on a Direct Consolidation Loan when they consolidate. Borrowers should weigh carefully the advantages and disadvantages when deciding whether or not to consolidate.

Forbearance

Borrowers who are willing but unable to make payments and do not qualify for a deferment may be eligible for forbearance. Forbearance means temporarily postponing payments or making smaller payments for a limited and specified period of time. Interest is charged on all Direct Consolidation Loans during forbearance. While both principal and interest payments will be forborne, borrowers may choose to pay the interest as it accumulates or have it capitalized at the end of the forbearance period.

Note: Endorsers on Direct PLUS Consolidation Loans may be eligible for forbearance.

Note: The length of a repayment period does not include periods of forbearance.

Borrowers may request forbearance if they meet at least one of the following conditions:

- ▶ The borrower is experiencing financial or health problems.
- ▶ The borrower is serving in a medical or dental internship or residency.
- ▶ The borrower is serving in a position under the National and Community Service Trust Act of 1993.
- ▶ The borrower is obligated to make payments on Title IV loans that are equal to or greater than 20 percent of the borrower's total monthly gross income. Eligibility is limited to three years.

Note: Married borrowers are eligible for forbearance on a joint consolidation loan only if both spouses meet the requirements for forbearance.

Borrowers who meet any of these conditions and want to postpone repayment of their loan must call or write the Direct Loan Servicing Center to ask for the appropriate form (Appendix P). They will be asked to document that they meet the requirements for forbearance. The Department also grants administrative forbearance, which does not require documentation, for such periods as the time prior to a borrower's filing of a bankruptcy petition and the period for which payments are overdue at the beginning of a deferment. Contact the Direct Loan Servicing Center with specific questions about administrative forbearance.

Definitions

<i>Capitalization:</i>	The addition of accrued interest to the principal of a loan, increasing the cost of the loan.
<i>Deferment:</i>	A temporary postponement of payments on a loan.
<i>Forbearance:</i>	A postponement of payments or a reduction in monthly payments for a limited and specified period of time during which a borrower is willing but unable to make payments.

The diagram features a large black rectangle on the left containing the word "default" in white. To its right is a large, light blue, semi-transparent rectangle containing the word "consolidation" written vertically. At the bottom left, the words "Direct Loans" are written in large black font. A dotted line forms a rectangular frame around the central text. On the left side of this frame, three blue triangles point to the right. A dotted line with an arrowhead points from the text box to the word "default".

default

Borrowers who fail to make a payment on time are considered delinquent on a Direct Consolidation Loan. Borrowers who do not make payments for 180 days are considered to be in *default*.

Direct Loans

consolidation

Consequences

The consequences of default are severe and long-lasting:

- ▶ The Department of Education can immediately demand repayment of the total amount due on the loan.
- ▶ The Department of Education will attempt to collect the debt and may charge the borrower for the costs of collecting.
- ▶ The default will be reported to national credit bureaus. The borrower's credit rating will be damaged, which will make it difficult for the borrower to make purchases such as a car or house.
- ▶ Borrowers in default are ineligible for Title IV student aid.
- ▶ Borrowers in default are ineligible for deferments.
- ▶ The Internal Revenue Service can withhold a borrower's federal income tax refund.
- ▶ The borrower's wages may be garnished.

It is important that borrowers stay in touch with the Direct Loan Servicing Center. Default can occur when a borrower fails to keep the Direct Loan Servicing Center up to date on address or name changes and billing statements go astray. The Direct Loan Servicing Center also can offer alternatives when a borrower is having trouble making monthly payments. Borrowers may apply for a deferment or forbearance or may change repayment plans.

Definitions

Default:

Failure to repay a loan according to the terms of the promissory note. This failure must persist for 180 days.

The diagram features a large black rectangle on the left containing the word "discharge" in white. To its right, a dotted line forms a rectangular path. At the bottom left of this path, three blue triangles point right towards the path. At the top left, a dotted line extends from the black rectangle. At the bottom right, a dotted line extends from the "Direct Loans" text. At the top right, a dotted line extends from the "Consolidation" text. A blue arrow points from the top of the dotted line to the explanatory text block.

discharge

Under a few special circumstances, a borrower's Direct Consolidation Loan may be discharged, which means a borrower is released from all obligation to repay the loan.

Direct Loans

Consolidation

Conditions

A borrower can receive a discharge with proof of the following:

- ▶ The borrower becomes totally and permanently disabled. A physician must certify total and permanent disability. Also, the condition cannot have existed at the time the borrower applied for the Direct Consolidation Loan, unless a doctor certifies that the condition substantially deteriorated after the loan was made.
- ▶ The borrower dies. **However, spouses who consolidate jointly agree to repay the entire consolidation loan if either spouse dies.**
- ▶ The borrower's school closes or the school falsely certifies a borrower's eligibility. If a parent has a PLUS Loan for the borrower, it will also be discharged.
- ▶ The borrower's obligation to repay a loan is discharged in bankruptcy (in rare cases).

Note: Married borrowers who consolidate jointly are eligible for discharge only if both meet the requirements for discharge, with the exception of a discharge for a closed school or false certification of eligibility.

Borrowers may not avoid repaying their loans because they did not complete a course of study (for reasons other than school closure or false certification), did not like a school or program, or did not obtain employment after completing school.

Note: Borrowers who have Federal Perkins Loans are eligible for cancellation under other conditions, such as performing certain kinds of public service. (See Appendix Q.) This benefit is lost when a Perkins Loan is included in a Direct Consolidation Loan.

consolidation

of health professions loans

Differences exist between the Direct Consolidation Loan Program and the health professions and nursing student financial aid programs because the former is authorized by the Higher Education Act and the latter by the Public Health Service Act. Borrowers should be made aware of the advantages and disadvantages of consolidating because of these program differences. They are outlined in the following sections and in Appendix R.

Direct Loans

consolidation

Eligible Loans

The following health professions loans are eligible for consolidation under the Federal Direct Consolidation Loan Program :

- ▶ Health Professions Student Loans (HPSL)
- ▶ Loans for Disadvantaged Students (LDS)
- ▶ Health Education Assistance Loans (HEAL)
- ▶ Nursing Student Loans (NSL)

At least one Direct Loan or FFEL must be included in a Direct Consolidation Loan. Health professions loans are not eligible for in-school consolidation.

Ineligible Loans

Primary Care Loans are not eligible for consolidation under Direct Consolidation or FFELP.

Health Professions Student Loans & Loans for Disadvantaged Students

- ▶ HPSL and LDS borrowers receive a one-year grace period. Direct Consolidation Loans that include a HPSL or LDS do not qualify for a grace period.
- ▶ To qualify for an in-school *deferment*, Direct Consolidation Loan borrowers must be attending school at least half time. HPSL and LDS borrowers are required to attend school full time to be eligible for an in-school deferment.
- ▶ For HPSL and LDS borrowers, the interest rate is fixed at 3, 5, 7, or 9 percent — depending on the date the loan was made. The interest rate on the unsubsidized portion of a Direct Consolidation Loan that includes a HPSL or LDS is variable with an 8.25 percent cap.
- ▶ Interest does not accrue on HPSL and LDS loans during periods of grace and deferment. However, borrowers who include a HPSL or LDS in a Direct Consolidation Loan will be charged interest during these periods. They may either pay the interest as it accumulates or allow it to be *capitalized*.
- ▶ HPSL and LDS borrowers have 10 years to repay their loans. Direct Consolidation Loan borrowers may choose from four repayment plans with 10 to 30 years to repay their loans depending on the repayment plan and how much they owe.

▶ Borrowers who include a HPSL or LDS in a Direct Consolidation Loan do not retain the deferments that apply to the health professions loan. However, they gain the deferments that apply to Direct Consolidation Loans. They may be eligible for additional deferments if they have an outstanding balance on an FFEL made before July 1, 1993, when they obtain a Direct Consolidation Loan. (For more on deferments, see Postponing Repayment page 2.)

Note: HPSL and LDS borrowers may be eligible for either a Federal Consolidation Loan or a Direct Consolidation Loan. In either case, the terms applying to the new consolidation loan supersede those of the underlying loans. The repayment period starts over, and borrowers may apply for deferments for which the time limit had been exhausted.

Health Education Assistance Loans

HEAL Program

- ▶ HEAL borrowers receive a nine-month grace period. Direct Consolidation Loans that include a HEAL do not qualify for a grace period.
- ▶ To qualify for an in-school deferment, Direct Consolidation Loan borrowers must be attending an eligible school at least half time. HEAL borrowers are required to attend school full time to be eligible for an in-school deferment.
- ▶ HEALs may be offered as fixed or variable rate loans. The maximum interest rate on a variable rate HEAL is based on the average 91-day Treasury bill rate plus 3 percentage points and is not capped. This rate is adjusted quarterly. Actual HEAL interest rates are frequently much lower than the maximum. For example, in Fiscal Year 1996 interest rates have been as low as the quarterly Treasury bill rate plus 1.59 percentage points.
Some HEALs may be offered as fixed interest rate loans. The interest rate cannot exceed the maximum interest rate assessed for the quarter in which the borrower obtains the HEAL.

HEAL Refinancing

The interest rate on the unsubsidized portion of a Direct Consolidation Loan that includes a HEAL is variable with an 8.25 percent cap.

- ▶ HEAL borrowers have from 10 to 25 years to repay their loans. Direct Consolidation Loan borrowers may choose from four repayment plans with 10 to 30 years to repay their loans depending on the repayment plan and the loan amount.
- ▶ Under the Direct Consolidation Loan Program, HEAL borrowers may repay under the ICR Plan for the entire repayment period. HEAL lenders are only required to offer an ICR plan for the first five years of repayment.
- ▶ Borrowers who have defaulted on a HEAL may include the collection costs and late fees in a Direct Consolidation Loan. These fees may not be included under HEAL Refinancing.
- ▶ Borrowers who include a HEAL in a Direct Consolidation Loan do not retain the deferments that apply to the HEAL, as they would under HEAL Refinancing. However, they gain the deferments that apply to Direct Consolidation Loans. They may be eligible for additional deferments if they have an outstanding balance on an FFEL made before July 1, 1993, when they obtain a Direct Consolidation Loan. (For more on deferments, see Postponing Repayment page 2.)

Note: Under both the HEAL Refinancing and Direct Consolidation Loan programs, the terms applying to the new loan supersede those of the underlying loans. The repayment period starts over, and borrowers may apply for deferments for which the time limit had been exhausted.

Nursing Student Loans

- ▶ NSL borrowers receive a nine-month grace period. Direct Consolidation Loans that include an NSL do not qualify for a grace period.
- ▶ For NSL borrowers, the interest rate is fixed at 3, 5, or 6 percent — depending on the date the loan was made. The interest rate on the unsubsidized portion of a Direct Consolidation Loan that includes an NSL is variable with an 8.25 percent cap.
- ▶ Interest is not charged on NSLs during periods of grace and deferment. However, borrowers who include an NSL in a Direct Consolidation Loan will be charged interest during these periods. They may either pay the interest as it accumulates or allow it to be capitalized.
- ▶ NSL borrowers have 10 years to repay their loans. Direct Consolidation Loan borrowers may choose from four repayment plans with 10 to 30 years to repay their loans depending on the repayment plan and how much they owe.
- ▶ Borrowers who include an NSL in a Direct Consolidation Loan do not retain the deferments that apply to the NSL. However, they gain the deferments that apply to Direct Consolidation Loans. They may be eligible for additional deferments if they have an outstanding balance on an FFEL made before July 1, 1993, when they obtain a Direct Consolidation Loan. (For more on deferments, see Postponing Repayment page 2.)

Note: NSL borrowers may be eligible for either a Federal Consolidation Loan or a Direct Consolidation Loan. In either case, the terms applying to the new consolidation loan override some of the limits on the underlying loans. The repayment period starts over, and borrowers may apply for deferments for which the time limit had been exhausted.

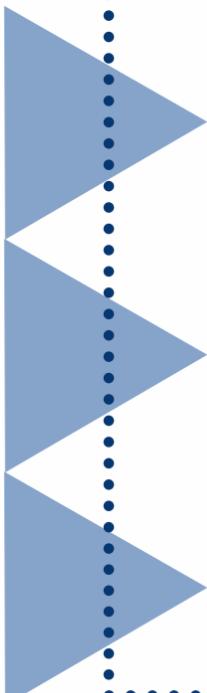
Definitions

Deferment: A temporary postponement of payments on a loan.

Capitalization: The addition of accrued interest to the principal of a loan, increasing the cost of the loan.



how to reach us



.....▶ **Applicant Services/Loan Origination.....(800) 557-7392**

- General information about consolidation
- Estimated repayment information
- Applications
- Replacement forms
- Questions about application processing
- Working hours from 8 a.m. to 8 p.m. (EST) Monday-Friday

TDD: (800) 557-7395

FAX: (800) 557-7396

VOICE: (800) 557-7392

Mail applications, correspondence, repayment plan selection forms, disclosure of tax information (ICR) and alternate documentation of income (ADI) to:

William D. Ford Direct Loan Program
PO Box 242800
Louisville, KY 40224

Mail verification certificates, promissory notes and endorser addenda to:

William D. Ford Direct Loan Program
P.O. Box 2007
Montgomery, AL 36102-2007

Direct Loans

Borrower Services/Loan Servicing.....(800) 848-0979

- Payment information
- Changing repayment plans
- Deferment and forbearance forms
- Address/name changes
- Working hours from 8 a.m. to 8:30 p.m. (EST) Monday-Friday

U.S. Department of Education
Borrower Services Department
Direct Loan Servicing Center
P.O. Box 4609
Utica, NY 13504-4609
TDD: (800) 848-0983

Payments


U.S. Department of Education
Direct Loan Payment Center
P.O. Box 746000
Atlanta, GA 30374-6000

Department of Education Consolidation Work Group


- Program development and coordination
- Working hours from 9 a.m. to 5 p.m. (EST) Monday-Friday

U.S. Department of Education
Consolidation Work Group
Regional Office Building 3, Room 5036
7th and D Streets SW
Washington, DC 20202-5388
(202) 708-9951
FAX: (202) 401-3424

Telephone numbers and information are subject to change without notice



consolidation materials/publications



Consolidate With Direct Loans introduces borrowers to the Direct Consolidation Loan Program, outlines the advantages and requirements, and explains how to apply.

Federal Direct Consolidation Loan In-School Application Packet mailing includes questions and answers on consolidation, a comparison of loan benefits, instructions, a worksheet, an application, and a return envelope.

Federal Direct Consolidation Loan Application Packet mailing includes all of the above plus a request for estimated repayment information form and an overview of repayment plans.

Federal Direct Consolidation Loan Promissory Note (In-School) mailing includes information on borrowers' rights and responsibilities, instructions, a promissory note, a loan statement, an endorser addendum if required, and a return envelope.

Federal Direct Consolidation Loan Promissory Note mailing includes all of the above plus a fact sheet on repayment choices, a repayment plan selection form, and a consent to disclosure of tax information form.



Direct Loans

General information on consolidation may also be found in the following:

All About Direct Loans offers borrowers detailed information on the Direct Loan Program with an overview of consolidation.

Direct PLUS Loan Basics offers borrowers detailed information on Direct PLUS loans with an overview of PLUS consolidation.

Entrance and exit counseling guides for borrowers and counselors introduce borrowers to the Direct Loan Program and Direct Consolidation Loans.

Updates are also available on the William D. Ford Federal Direct Loan Web site. The address is **<http://www.ed.gov/DirectLoan/>**. The following fact sheets are available on the Web site:

Helpful Hints

Consolidation After Graduation

In-School Consolidation

Consolidating Defaulted Loans

Health Professions Loans

appendix a



**Federal Direct Consolidation Loan Application
Packet Mailing**

**(includes all of the items in the Federal Direct
Consolidation Loan In-School Application
Packet mailing)**

Direct Loans

appendix b



Loan statement

Currently in revision

Direct Loans

appendix c



Intent to continue letter

Direct Loans

appendix d



Verification Certificate

Direct Loans

appendix e



**Federal Direct Consolidation Loan Promissory
Note Mailing (includes all of the items in the
Federal Direct Consolidation Loan Promissory
Note mailing for in-school Direct Consolidation
Loans)**

Direct Loans

appendix f



Endorser addendum

Direct Loans

appendix g



**Quarterly unsubsidized interest statement for
in-school borrowers**

Direct Loans

appendix h



Capitalization chart

This chart is included in the Direct Consolidation Loan application mailing

Direct Loans

appendix i



Poverty guidelines

This chart is included in the *Direct Loan Repayment Book*

Direct Loans

appendix j



Constant multiplier charts

These charts are included in the *Direct Loan Repayment Book*

Direct Loans

appendix k



Income percentage factor chart

This chart is included in the *Direct Loan Repayment Book*

Direct Loans

appendix I



Monthly payment worksheets

These worksheets are included in the
Direct Loan Repayment Book

Direct Loans

appendix m



Beginning monthly payments chart

These charts are included in the *Direct Loan Repayment Book*

Direct Loans

appendix n



Comparison of loan program benefits (Direct Consolidation Loan Program and FFELP)

This chart is included in the Direct Consolidation Loan application mailing

Direct Loans

appendix o



Request for deferment forms

Direct Loans

appendix p



Request for forbearance forms

Direct Loans

appendix q



Discharge Chart

Direct Loans

appendix r



Comparison of loan program benefits

Direct Loans

appendix s



Comments sheet

Direct Loans

Tell Us What You Think

We will be updating this guide periodically to reflect statutory and policy changes. In addition, we would like to improve the guide based on your comments. Please remove this page, fill in your responses to the following questions, and mail or fax your responses to us.

- Should information on other topics have been included? If so, which topics?

- Have any questions been left unanswered? If so, which ones?

- Are any of the explanations confusing? If so, which ones?

- Does the design of the guide aid the reader in understanding the material? How?

- Does the design of the guide aid the reader in finding answers to questions? How?

- Please include any other comments you might have about this guide.

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Washington, DC 20202-5388
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